The Accessory Dwelling Unit (ADU) Solution

[Editor’s Note: This guest post was submitted by physician financial blogger and Los Angeles resident, the Darwinian Doctor. It’s a timely post considering that earlier this week we ran 12 Reasons California is a Terrible Place for Doctors to Build Wealth. Darwinian Doc’s parents had a small amount of money saved up for retirement but still had a chance of making it work for them until the death blow of moving to California to be closer to Darwinian Doc and family. When you try to stick it out in California, you’ve got to come up with creative ways to overcome the consequences of negative geographic arbitrage. Here’s The Darwinian Doc’s solution to solving both his childcare problem and helping out his parents. We have no financial relationship.]

“Just Support Us When We’re Older”

When I was in high school, I was always surprised that despite living in a rental house, my parents still somehow found some cash to pay for my music lessons and other extracurricular activities. Clearly, if we had enough to pay the tutors, we couldn’t be in such dire financial straits, right?
Whenever I asked my mom about money, she would joke and reply, “Just support us when we’re older.”

As I went through college and then medical school, I often ended up being the one to fill out the forms for financial aid. I realized that unless my parents had a secret stash of gold bars under the floorboards, they had very little saved for retirement. I also realized that my mother hadn’t been joking at all about likely needing financial help later on.

**How to End Up at Retirement Age With No Retirement Accounts**

After a brief foray into the dry cleaning business, my dad spent the majority of the 1980s as a commercial real estate broker. That work dried up in the recession of the early 1990s, starting an increasingly grim decade of austerity for my family, complete with a repossessed house and all the awful money stress that comes along with stuff like that. My father tried to keep us going by starting a construction business, and eventually, my mom went back to work as a hair stylist to make ends meet.

Needless to say, during this time my parents had little ability to consider retirement planning. The majority of their time was spent just trying to make ends meet. There was no 401(k) account, no employer match, nor was there any inheritance coming.

In recent years, I’ve learned that this situation is very common. Studies have shown that nearly half of working-age Americans have no retirement savings at all! In 2013, the average American working-age family had only $5000 in retirement accounts.
A Crash Course in My Parents’ Finances

After I left for college, my parents’ money situation seemed to get better. The real estate business picked back up, and they seemed more comfortable. My mom was able to stop working again. Over the next decade, they retired and moved to Nevada for the low cost of living. But I still had no real clue about the particulars of their financial health.

It was the birth of my first child that started to open the door to the murky area of my parents’ finances. Shortly after he was born, my mom decided that she wanted to move to Los Angeles to be closer to her grandchild.

My wife and I were ecstatic at the thought of free childcare, so after a few months, my mom made the move. Leaving my father to temporarily fend for himself in Nevada, she took up residence in a studio apartment by our home. After my wife went back to work, my mom shared childcare duties with our nanny. My wife and I paid for her studio, which was around $1200 a month. My mom usually traveled back to Nevada over the weekends to make sure my dad was getting along okay in her absence.

After another year or so, my dad sold their house in Nevada
and came to Los Angeles as well. They moved from the studio to a larger apartment near our house where the rent was about $3000 a month. It was by no means a fancy apartment; this was just the going rate in our area of Los Angeles at the time.

We offered to pay for half of their rent, which prompted, for the first time, a frank discussion about their finances.

I learned that even with splitting the rent, my parents didn’t have enough cash flow to cover their rent and living expenses in the long term. Although they were much better off than those dark days in the 1990s, I learned that the vast majority of their retirement portfolio consisted of:

- A condominium (rented)
- Cash from the Nevada house (in CDs)
- Social security

The total cash flow from these assets yielded just over $1500/month.

**My Wife and I Inadvertently Doomed Their Meager Retirement**

On one hand, my parents both helped immensely with childcare, and my son (and now sons) benefitted enormously from their loving care. On the other hand, by luring my parents from their cheaper existence in Nevada, I doomed the sustainability of their retirement.
In Los Angeles, the expensive rent, food, and utilities alone would eat through the value of their portfolio in about 10 years. And if one of them became sick and needed to go to a care facility? Their assets would be gone in a few years at most.

Solving the Problem

Wracked with guilt, I debated the situation endlessly with my wife. I wanted a solution that improved my parents’ quality of life, while not completely derailing my own desire for financial independence. We eventually came up with a few options to stabilize my parents’ living costs:

#1 Allow my parents to move in with us

This option was a non-starter. My wife told me in no uncertain terms that we would likely end up divorced if my parents shared a roof with us. Getting a divorce would violate the “one house, one spouse” rule of financial wellness, so we moved onto the next option.

#2 Buy a nearby duplex and have them live rent-free in one unit

It turns out that duplexes in Los Angeles, like single-family...
homes, are crazy expensive. We would have had to take on another sizeable mortgage to purchase an LA multifamily property, even if we used my parents’ cash for a downpayment. This made us uncomfortable, and to top it off, we realized that the rent from the second unit alone wouldn’t come close to covering the costs of the new mortgage. Charging my parents rent would defeat the purpose of this option, so we decided against this as well.

#3 Move to a house with a larger lot and build an accessory dwelling unit (ADU) for them on our land

We ended up choosing this option. We moved to a property with a larger plot of land of about a third of an acre and expanded our garage to an ADU (accessory dwelling unit). An ADU is just a fancy term for an in-law suite or granny flat. It has all the essentials, including a bathroom, kitchen, and sleeping space.

While Los Angeles has historically made the process of legally building an ADU about as easy as placing an IV in a screaming 2-year-old, recent changes to state laws have made the approval process much easier. In California, there is now the general recognition that increased utilization of existing land to create more housing units is a good way to ease the housing crisis.

The Accessory Dwelling Unit (ADU) Solution: A Win-Win

We took bids, got over the sticker shock, and then forged ahead with our plan to make a fully permitted ADU. Our priorities were speed and quality of construction, as well as minimizing legal risk. So we went with a licensed and bonded contractor who would obtain all necessary permits from the city.
We took out a low-interest personal loan from my parents for $150k and paid for the rest out of our savings. The construction was about $175k by itself, and the appliances and fixtures cost another $25k. We didn’t want to pay for a designer or full-service architect, so my wife and I selected and purchased everything from the dishwasher to the flooring. This was significantly more annoying and time-consuming than I thought it would be.

I’m surprised that the contractor bid didn’t include things like the HVAC unit, the bathroom tiles, or the oven, but this seems to be a universal phenomenon amongst LA contractors.

The garage before conversion.

**Was an ADU a Good Financial Decision?**

So this all begs the question: Was this a good investment in addition to being a good long term solution for my parents’ needs?

Let’s consider some of the benefits from this situation (in no particular order):

- Added value to our property
- Free childcare (about 25 hours a week)
- The relationship between my kids and their grandparents
- Economies of scale for utilities, food, and toiletries
When we delve deeper into the numbers, first to consider is the $150k loan we received from my parents. With their blessing, we will pay the personal loan back to them over a 10 year period, plus 3.25% APR, to help improve their cash flow. This is $1466/month.

I’ve committed to supplementing the loan repayment to a total of $3000 a month for them to use as they please. This seems like a lot of money, but considering the amount of childcare my parents provide, this is actually quite a bargain. Finally, considering that we were previously burning through over $36k annually on just their rent alone, my parents simply have to live in the ADU for 5-6 years before it essentially pays for itself.

Looking down the road a few years, I envision being able to get by without a full-time nanny as both kids start going to school full time. After my kids come home from school, they can hang with their grandparents until my wife and I get home from work.

Looking even further down the road, I see a place where my parents can safely age in place. If minor health problems arise, I’ll be able to intervene conveniently and frequently, as they’ll literally be in my backyard.

The specter of more serious health problems that might need a long term care facility haunts me still, but one problem at a
Conclusion

It took about 6 months from start to finish, but the occupancy permit finally came through. My parents are set to move into the ADU next week and will have 600 square feet of newly constructed living space all to themselves.

As long as we all continue to get along, this arrangement should be mutually beneficial. My parents can be deeply involved in the lives of their grandkids while allowing me to help support and repay them for the sacrifices they made to allow me to become a physician.
Of course, I wish they had the means and foresight to have ample retirement savings to support themselves in retirement. They actually ended up better off than most retirees, but the expensive cost of living of Southern California did them in.

Unexpected family expenses can easily derail your journey to FIRE (or moFIRE). But by paying upfront to stabilize parental living costs with something like an ADU, you can get back on track.

_Do you have an accessory dwelling unit as part of your home? How have you used it? How have you helped out non-financially independent parents? Comment below!_

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**12 Reasons California is a Terrible Place For Doctors to Build Wealth**

I love California from Mt. Shasta to San Diego. I love Yosemite, Sequoia National Park, the Sierras, Joshua Tree, and Idyllwild. It has awesome beaches, great mountains, and great deserts all in the same state. The weather is always
spectacular and the cities have tons of fun stuff to see and do. Sure, it has a nasty little earthquake and forest fire habit, but there are lots of opportunities in California that can’t be found anywhere else. In addition to these unique aspects, many people have family in California and want to live close to them. Given the plethora of academic institutions there, many subspecialists have found a niche for their practice that cannot easily be replicated elsewhere. Other docs, due to religious, racial, or political issues feel strong ties to the diversity available in California.

Despite all that, I continue to be surprised and appalled at just how difficult it is for a physician to get ahead in California. In email after email I receive from doctors in that great state I hear similar struggles. The original title of this post was “8 Reasons California…” As you can see, it got worse the more I researched and wrote. The economic costs of practicing in California are above and beyond the so-called “Sunshine Tax.” Perhaps the best possible move a California physician struggling with financial issues can make is to move somewhere else. Where should they go? Practically anywhere else would be better from a financial perspective.

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better from a financial perspective.

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12 Reasons Doctors Struggle to Get Ahead in California

# 1 The High Cost of Living

Everybody knows about this one. Part of this is “Sunshine Tax.” People are willing to pay more to live in places with nicer weather and more to do. Part of it is that, on average, jobs in California typically pay more. For instance, the average teacher in California makes $85K, $36K (61%) more than in my home state of Utah. Nurses make 72% more in California, $100K versus $58K in Utah.

How about for doctors? Well, the salary info isn’t quite clear. For example, one source suggests California docs from family practitioners to orthopedic surgeons are paid 15-18% more than Utah docs. Other sources suggest just the opposite, ranking Utah 24th and California 32nd in average physician salary. But either way, it is clear that the difference between a doc in California and a doc elsewhere is nowhere near the difference in other professions like teaching, nursing, and particularly technology workers!

So what costs more in California? Well, housing is the big one. The average home costs $546K in California. Utah is no low-cost housing mecca, but the average is $325K. It’s $287K in Nevada and $139K in Indiana. $546K might not seem too bad, until you realize that is only 1/3 of the average in the Bay Area—$1.6M. In case it isn’t abundantly clear, the average California orthopedist has to stretch to buy the AVERAGE house in the Bay Area and that house is completely unaffordable for the average California family practitioner.
But the high cost of living doesn’t stop with housing. California may not be Alaska or Hawaii, but a gallon of milk there costs three times as much as a gallon in Illinois. The only state with more expensive gas than California is Hawaii. Don’t underestimate the effects of these higher costs on your ability to build wealth.

# 2 High State Taxes

Sure, you might get paid a little more in California, but that’s only when you look at your gross income. You won’t notice nearly as big of a difference in your net income. There are two reasons for that. The first is that our country has a progressive income tax. You would think that paying a higher cost of living would be canceled out by making more money, but the truth is that the income tax brackets don’t cut you any slack for that. The tax brackets are only based on your income, not your expenses.

But wait, there’s more. California is also notorious for its state income tax. Check out these brackets from 2018:
That’s right. It tops out at 13.3%. There are federal brackets lower than that. Most docs won’t be paying 13.3%, they just don’t make enough. But they’ll all be in at least the 9.3% bracket, and many will hit double digits. By the time you apply both your higher federal tax brackets and the California tax brackets, there won’t be any of your increased salary left to use for the high cost of living. The only nice thing I can say about California taxes is that at least they don’t have a city income tax like New York City.

I’m not looking forward to doing my first California tax return in 2019. Not only will I be paying 13.3% on every dime
I make from Passive Income MD, but I’m told by some Californians that their state income tax return is longer than their federal one! This WCI Network thing would be a lot better if I could talk PoF into moving to Texas, PIMD into moving to Nevada, and TPP into moving to Florida!

# 3 Lots of Wealthy People

A third issue with physicians trying to build wealth in California is that California is seemingly filled with tons of wealthy people. It turns out that 75% of Californians are in the top quintile of income nationwide. In most places in this country, physicians buy houses in the nice neighborhoods and send their kids to the best schools. In California, those docs are competing with dot-com millionaires for those houses. In addition, thanks to the run-up in housing prices, many relatively middle-class Californias are millionaires and multi-millionaires just by virtue of having arrived there before you. Now, those folks can never move to another house in California thanks to the 1978 Proposition 13 that locks in your property taxes until you move, but you still have to compete with them to live in a nice area. Instead of being in the top 1-2%, docs find themselves merely in the top 15% or so.

# 4 Low MediCAL Payments

I was actually surprised that some doctors might get paid more in California, because that has not been my experience talking to friends in my specialty. One of my partners moved here from California and nearly doubled his income. Part of the reason for this is that a large percentage of California ED patients are on Medicaid (called MediCAL to be cute). Nationwide, the average is 32%, but in California, it’s 43%. To make matters worse, MediCAL also pays worse than Medicaid in many states. Utah isn’t exactly known for awesome Medicaid payments, but a level 5 ED visit here pays $133 (compared to $175 for
Medicare). In California, it’s only $108. So if you’re in a practice that sees a lot of MediCAL patients, you probably won’t be paid more in California than you might elsewhere.

[Update prior to publication: Of course, right after I write this post, I find out about something good that California is doing for docs. If your patient population is over 30% MediCal, first, I’m sorry, and second, take a look at this student loan assistance program.]

# 5 High Transportation Costs

If you’ve ever driven through California, you may have noticed that it was a rather expensive experience. California has very strict environmental laws, which increase the cost of vehicles sold there. To be fair, California is such a huge market that most car makers have just adopted California standards for all of their US-sold cars. California competes for the highest gas tax in the country at 76.7 cents per gallon. To make matters worse, sales tax on it is calculated AFTER the excise tax is applied, so in a way, you’re double taxed.

What’s worse, however, is that Californians have notoriously long commutes and sit in traffic for lengthy periods of time, so you end up buying more of that overpriced gasoline. Californians commute an average of 28.9 minutes, the fifth longest in the country. To make matters even worse, it’s my observation that Californians tend to drive nicer cars than many other places. Maybe that’s because they’re wealthier on average, or that they wear cars out faster due to all those commuting miles, or perhaps they just look nicer due to less rust from snow and salt. But the urge to keep up with the
Joneses in the car department seems quite high as I drive around.

# 6 Health Savings Account Taxes

My favorite investing account is a Health Savings Account (HSA) because this Stealth IRA is triple tax-free. You get a federal income tax deduction when you put money in, it grows in a tax protected manner, and then when you pull the money out, as long as you spend it on health care, you don’t pay any taxes either. In most states, you also get triple tax-free treatment with regards to state income taxes, but not California (and New Jersey.) HSA contributions aren’t deductible in California. Why not? Just because.

# 7 No 529 Tax Benefit

California actually has a pretty decent 529 plan, with nice low-cost investments and reasonable fees. But unlike dozens of other states, there is no state tax deduction or credit for contributions.

# 8 SALT Deduction Limitation

Most doctors in the country had their taxes lowered by the Tax Cut and Jobs Act that went into effect in 2018. That wasn’t the case for many doctors in California. That’s because of the
limitation on the SALT (State And Local Tax) deduction. It used to be that all of those state income taxes and property taxes you paid in California were deductible on your federal income tax return. Not any more. You only get to deduct $10K total. Now that hurt me in Utah too, but not nearly as much as a doc who was paying 10% in state income tax plus the property taxes on a fancy new doctor sized California house. It would have been even worse if the proposal to limit mortgage interest as an itemized deduction had gone through too.

# 9 LLC/Corporation Annual Fees

Many doctors and other business owners form an LLC or Corporation for various reasons. There is usually a fee that you have to pay to the state each year for this. In Utah, it’s $15. In California, it’s 53 times as high – $800 per year. Ouch. At least you get to pay it with pre-tax dollars since it’s a business expense.

# 10 Weak Asset Protection Laws

Although California’s malpractice environment is head and shoulders over places like Dade and Cook Counties (thanks in part to a $250K cap on pain and suffering), the fact that the people you may damage have higher incomes probably makes up for it. In addition, California is notorious for its weak asset protection laws. Although it protects 401(k) assets, California judges are known to routinely pierce IRAs, at least any amount above and beyond what is “reasonably necessary for the support of the debtor and dependents.” I’ll bet my opinion of that amount is quite different from that of a California judge. Don’t run to whole life insurance instead – only $9,700 in cash value is protected there and annuities get no protection. But at least you’ve got that big house right? Not so fast. This isn’t Florida or Texas. Only $50-150,000 of those millions in home equity you’ve got are protected from your creditors. California doesn’t have an asset protection trust either. One small consolation is the existence of a
little known law that allows for a (probably un-qualified) “Private Retirement Plan” which can protect assets in California.

# 11 Highest Priced Disability Insurance

California is also notorious for particularly high disability insurance rates. If you’ll be moving to California for or after residency training, you’ll almost surely want to get your disability policy in place before you go.

# 12 Crazy Legislature/Laws

The California legislature is not known to be a particularly physician friendly body. As a full-time assembly, most legislators are professional politicians. Now, don’t get me wrong, there are crazy anti-doctor laws being debated all the time including this idiotic one in Utah a few years ago. But California seems to go above and beyond. Perhaps the most recent one is illustrative. Although it hasn’t passed (yet), this bill would essentially allow the state to fix all of the prices for physician services as a percentage of Medicare payments. Anesthesiologist Linda Herzberg, MD, described it like this:

> When you set payments at percentages of Medicare to a state
GDP cap, prohibit physicians from participating in the price-setting commission, and use physician licensing fees to pay for the commission to fix their prices, I’m not too interested in continuing a discussion about how this might work, even if the bill is revised. To quote the CMA letter, “Physicians are not a public utility and should not be treated as such.” If enacted, this bill is more likely to dramatically restrict patients access to care, promote early physician retirements and a physician exodus from California, as well as deter the entry of young physicians into practice in California, than anything we have seen to date.

There seems to be no end of crazy ideas coming from this body. How about this one to tax text messages applied retroactively?

Move or Deal With It?

It’s obviously not impossible to get ahead as a doc in California. One need look no further than our WCI Network partner Passive Income MD. This anesthesiologist and his physician wife own 3-4 different businesses and are doing just fine. Okay, maybe that sentence confirms my hypothesis rather than providing evidence against it. Perhaps this post illustrates the reason why PIMD started looking for additional income in the first place!

If you’re not in that sort of financial situation, you’ve got a hard decision to make. You can leave California and acquire wealth relatively easily simply by seeing patients, carving out a big chunk of your income, and investing it wisely. Or you can stay and make do as best you can. You may want to put more time and effort into building a side business than you otherwise would. You’ll likely need to work longer to reach financial independence. You may need to take on more leverage risk or market risk to reach your goals. You’ll probably find yourself feeling much more middle class than you otherwise would. Hopefully, your partner’s increased salary can help
make up some of the difference.

You’ll have some issues, but they’re mostly first world issues unless you have a particularly low income and a particularly high student loan burden. Just realize before you commit to that arduous road that there is another option, and it might only be a few hours drive or an hour flight away. Now I’m sure I’m going to get roasted for this post by the 12% of my readership from California, but that’s okay. Just don’t expect a response before Saturday as I will be out of cell phone coverage all week while exploring Southern Utah. My staff is now all back from their backpacking trip last week, so feel free to ping them if you need anything while I’m gone.

What do you think? In what other ways is it difficult for physicians to build wealth in California? Have you moved from a high cost of living area to a lower cost area? What was it like? Have you decided to stay in California? What sacrifices have you had to make to do that? Comment below!
SoFi Money – A Review

SoFi has been one of the most important business partners of The White Coat Investor for the last 5-6 years. Despite that, only one of the 1500+ blog posts on this site has ever been dedicated to SoFi.

SoFi was founded the same year as The White Coat Investor, and we’ve grown up together. Well, one of us grew up. The other one is still being run off a dining room table in Utah. But it has been fun to watch them expand and offer new products over the years.

They usually bring them to me and see if I think my audience would be interested. I think I’ve turned down more products than I have actually helped them market, but we’ve still worked together on several lines of business.
Sofi Student Loan Refinancing

The one most of you know is what SoFi is most famous for, student loan refinancing. I have had a number of discussions over the years with SoFi about their student loan refinancing products.

I distinctly remember one conversation where I was sitting across the table from the CFO trying to convince him they needed to offer a product to residents to refinance their private loans. There was a lot of hesitation as he wondered how he could ever find investors willing to loan money knowing they weren’t going to get any significant interest payments for years, but eventually, they came out with perhaps the best loan refinancing product available to residents.

Sofi Mortgage

I’ve also included SoFi mortgage on my doctor mortgage page. It’s not technically a doctor mortgage, but it has been helpful to a lot of readers, particularly in California. Like most doctor mortgages, it has no PMI despite a down payment of less than 20%. It would probably be even more popular with readers except it requires a 10% down payment rather than the more typical 0-5%. You get $500
back for going through the links on this page to get your mortgage.

I even have an affiliate agreement with them for their personal loan product, although I don’t really publicize that one. Doctors are too debt-numb as it is, so I try not to float out a personal loan as the solution to their financial issues until they’ve at least worked their way through other options. But as personal loans go, it’s a pretty good product with relatively low rates and fees. Certainly, there are doctors who would find it helpful in certain short term situations and I occasionally point people there.

**Sofi Wealth Management**

They have a wealth management and financial planning service which is pretty unique too, being FREE and all (at least for a while). I’ve been encouraging them to hire some doctor specific advisors to work there. I reviewed it here.

SoFi has lots of other products too — refinancing of student loans and mortgages, term life insurance, a money-tracking app, a low cost investing service, and even four new ETFs they’re coming out with.

Perhaps the reason I have never dedicated a post to SoFi despite having thousands of my readers who have used their services is that I have never personally used a single SoFi product. Well, that moment has finally come.
Introducing SoFi Money

SoFi came out with a fancy new type of banking account that they call SoFi Money. They market it as a “combination checking/savings account.” Finally, they’ve come out with a solution to a problem I actually have.

Solving My Problem

What’s my problem? My problem is that I leave tens of thousands of dollars in checking in order to avoid bouncing payments and checks. I have true first world cash flow problems and sometimes the easiest way around them is to just leave an extra buffer in the old checking accounts. I basically never have less than $15K in our main checking account and sometimes ten times that much.

What’s the big deal? Well, my USAA checking account pays 0.01%. That’s right. 1 basis point. Why do they even bother? Our business checking account at a local credit union pays between 0.1-0.25%. Sure, that’s 10-25X what I’m making at USAA, but it’s still pretty pathetic, and I tend to leave even more money in that account. Yes, I get all the usual things you can get pretty much anywhere in a checking account these days—ATM fees are waived and overdraft protection, but the opportunity cost of that money sitting there is a big deal.
what does a SoFi Money account pay? At the time of writing (4/9/19) it pays an APY of 2.25%. That’s 225X what my current checking account is paying. In fact, it’s better than my current savings account at Ally Bank (APY of 2.20% today). Even a Vanguard money market fund is only paying slightly better (2.35-2.45% today on taxable MMFs and 1.33-1.45% today on municipal MMFs). The difference between having an average of $50K in an account paying 2.25% instead of 0.01% is $1,125 per year instead of $5 per year. Too bad I can’t get a business SoFi Money account yet.

The account comes with all the usual stuff you like to see in a checking account — no fees, free ATMs, automatic bill pay, free checks, mobile deposit, super easy sign-up (literally took me 2 minutes to open and fund an account), easy connections to your other accounts, a nice little app, the
ability to transfer money instantly to other SoFi Money users, and FDIC protection up to $1.5 Million. Other than the pain of changing checking accounts, what’s not to like?

**Criticisms of SoFi Money**

There have been a few criticisms about SoFi Money accounts. Some of it is in the fine print and some of it is just due to the nature of the product.

# 1 No Separation of Savings from Checking

Some people criticize that combining your checking and savings account will cause you to spend more money. I always find arguments like that to be patronizing and kind of dumb. If your financial discipline is so low that a tiny barrier like having to transfer money from savings to checking before you can spend it is going to be your salvation, well, you’ve probably got bigger financial problems than where you do your banking.

# 2 Low Withdrawal/Peer to Peer Transfer
Limits

This one could be a little annoying to high-income professionals considering SoFi Money. SoFi has some limits in place to help protect your account from fraud. You can only withdraw $610 per day from an ATM.

That doesn’t seem too bad since my limit at USAA was $10 less! But when I wanted to buy a boat with $20 bills, I could call USAA and have them raise the limit temporarily. Whether SoFi will allow me to do that, I don’t know. If this is a big deal for you, plan ahead.

Perhaps a bigger deal is you can only do peer to peer transfers of $250/day ($3,000/month.) I send friends larger amounts than that all the time with PayPal or Venmo, so that could potentially be a problem. But since I don’t yet have any friends with SoFi Money, I guess I would still need PayPay/Venmo anyway. You can read more about the limits here.

# 3 No Wire Transfers

You apparently can’t do wire transfers. I wasn’t planning on ditching all of my other bank accounts for a SoFi Money account, but this sort of a thing needs to be solved if SoFi Money wants people to use them as a one-stop solution. They tell me it is on the list to be accomplished in the third quarter of 2019.

# 4 No Bank Charter
SoFi Money isn’t a bank. It doesn’t have a bank charter. It is what is being referred to as a “neobank.” There are at least a half dozen of these out there now and the way it works is they basically sweep their cash to 6 other banks. That has its pluses and minuses.

The main plus is that you get a much higher FDIC insurance limit — you get six $250K limits for $1.5M. I suppose it is also possible that you may not have some consumer protections that exist for true banks when things go wrong, but I don’t know enough about banking to say whether that matters or not. There aren’t any bank branches either, but that’s the case for most of the banks I use anyway. Neither USAA or Ally has branches.

# 5 Where’s the Money Coming From?

If SoFi Money isn’t charging you any fees and it is paying you a pretty good interest rate, that money has to come from somewhere. Some might complain that SoFi tries to sell you all of their other financial services. Honestly, that’s not any different from any other bank out there. However, it does seem like there are a lot more “ads” for other services than I am used to. Are they collecting information on you in order to know what to try to sell you next? I’m sure they are. Welcome to the Age of Big Data.
# 6 Rate Drops After 3 Months Unless Direct Deposit Set Up

The 2.25% rate is technically only good for three months before it drops to half that. Half that rate is still awfully good for a checking account, but most importantly, this one is pretty easy to get around. All you have to do is set up a direct deposit of at least $3K/month. That shouldn’t be too hard to do if you’re really going to use this as your checking account.

[Update after publication: This requirement is now gone.]

# 7 No Cash Deposits

You can’t deposit cash into your SoFi Money account. Not a big deal for me. It’s been years since I deposited cash. I didn’t even know I could deposit cash into my USAA checking account. Of course, I have to drive 16 hours round trip for me to do so. Welcome to the digital age. This is one reason I have a local credit union account I almost never use.

# 8 Can’t Export Data to Other Software

I hope you like the SoFi Money App, because you’re not going to be able to export your data to Mint, Personal Capital, You Need a Budget, Every Dollar or other popular budgeting apps.

[Update after publication: See comments below, but users have been able to use both Mint and Personal Capital with their SoFi Money account.]

# 9 1% Currency Exchange Fee

If you want to use your debit card internationally, you’ll pay a 1% fee on all transactions. I’m sure there are some debit cards out there that don’t charge that sort of a fee, but most do. No big deal for me.
That’s all I could come up with. If you are okay with those downsides, a SoFi Money account is a great way to make some extra money and reduce some of the hassles in your life. All you have to do is overcome the inertia to just leave things as they are because it is a pain to change things like direct deposit and automatic payments.

If you do decide to try out SoFi Money, please use our affiliate link as it helps support this site.

Note that upon initial publication of this post, there was an additional $25 sign-up bonus (which was honored for those who signed up quickly) but that deal is no longer available. A checking account paying 2.25% however, still is.

**Sign-up for a SoFi Money account today**

What do you think? How would you like to earn interest on your checking account? Have you tried a neobank like SoFi Money? What did you like or dislike about it? Comment below!

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**How to Avoid the Traps of Lifestyle Creep**

[Editor’s Note: The following guest post was submitted by recent residency graduate and regular reader, Dr. Kevin Nguyen, DO. As a new attending struggling to control increased spending, he stumbled across the term *lifestyle creep*. He decided something was amiss with his upward trend in spending and that he’d better get educated about finances. For someone...**
new to finances, he learned the basics quickly and offers a timely warning to new graduates. We have no financial relationship.

Watch Out For the Creep!

After graduating from residency and starting my attending career, I found myself in unfamiliar territory. I’d spent the past three years as a family medicine resident focused on my education and learning about the practice of medicine. After I graduated and entered the real world, I felt somewhat lost. I am technically proficient as a physician, but if you asked me about managing finances, you’d have gotten a shrug and blank stare.

Recently, however, I’ve begun to look up resources on financial savings and wealth for retirement. It was through this research that led me to the topic of this article. I noticed that with my new income I was more comfortable spending money I would normally not have. I ate out at fancier restaurants, bought more material goods, and overall spent more money. In my efforts to reign this in, I came upon the term “lifestyle creep” and how it can affect all physicians that are new to the workforce.
What is Lifestyle Creep?

Explained further, lifestyle creep is the slow but steady changes in a person’s spending habits and standard of living. Just received a raise? Go buy a new pair of shoes. Year-end bonus? Go put money down for that car. Graduate from residency? Go buy a new house, new clothes, and finally start living. Certainly, it’s not wrong to want to do these things, but lifestyle creep can damage your long-term financial goals and should make anyone suspicious of their spending habits.

The danger of lifestyle creep is that it often goes unnoticed. You may start off by rationalizing small purchases. By themselves, it may seem like nominal increases to your standard of living, but together, this can add up dramatically and slowly your lifestyle has changed. A higher lifestyle brings higher expenses, and failure to address this can lead to lost opportunities on saving and investing in your future. This can have a profound effect on when and how you will retire. We have all heard about the physician with multiple houses and multiple cars. Although we may envy the lifestyle, just know that to keep going at this pace the physician likely will have to work past retirement to pay for all the expenses.

Avoiding lifestyle creep is all about managing your expenses, being aware of change, and critically thinking about improvements in your life. Growing slowly into your new
income is much better than jumping headfirst and making financial mistakes. To do this, we must understand the causes of lifestyle creep and why physicians are prone to it. Lifestyle creep affects physicians because the transition between resident to attending career is often followed by a 3-fold increase in salary and disposable income. Paired with years of delayed gratification, and poor financial education, it is no surprise that lifestyle creep traps physicians into making financial mistakes and harming their retirement goals.

3 Traps of Lifestyle Creep and How to Avoid Them

#1 Sudden Increase In Income

The average resident in America makes $57,200. When compared to the average medical school debt of $190,000, you can see that it does not leave much room for leisure. Additionally, residents work 60-80 hours a week which often leads to a lower standard of living and lower expenses. However, this becomes more difficult after graduating. New physicians can make between $150-500K a year depending on specialty. If not controlled, this greater spending power comes with increased spending habits.

Case Report #1: I Deserve An Upgrade!

Dr. NS is a new internal medicine doctor who is now enjoying the attending life. His hobbies include traveling, and throughout residency, he used credit card points for trips around the world. This was a great way to save money and also still enjoy life. He is currently planning a vacation and feels he should upgrade to business class for the extra leg room. This would cost him an extra $2000, but hey, he’s making more money and can afford it. He rationalizes that he’s earned the ticket.
There is nothing wrong with the above scenario and Dr. NS has every reason to go for the business class ticket, however, this is an example of lifestyle creep. The next time he plans a vacation, he’ll reminisce about flying business and may opt to fly it again. He was used to one standard of living, but because he has more money, he slowly increased his standard of living. It will be harder for him to go back down to coach. That $2,000 can be better spent elsewhere.

How Will the “Upgrade” Affect Your Future?

It is important to control your expenses and grow into your new income at a slow and steady pace. When looking at upgrading aspects of your lives, take time to consider how it will impact your future. Do you need to upgrade right away to a more lavish home or can you look to upgrade a smaller home in your current location? Although you can spend more with the new income, you will have other opportunities to spend money in financially smarter avenues.

Consider this metaphor: your income during residency is a small backyard pool. You have been swimming in this pool for many years and have gotten used to where you could go. Now, your swimming pool is much larger with a deep end and diving board. You wouldn’t want to venture too far off and drown before you are ready. First, you have to learn to swim and
learn to control your new income to avoid drowning in a sea of debt.

#2 Instant Gratification

Instant gratification is a symbol of American culture in the 21st century. Whether it is purchasing the newest iPhone or adopting contemporary trends, Americans are always looking for their next fix. By choosing the time-honored career of becoming a physician, most, if not all, choose to have delayed gratification by going through the rigors of training. If lifestyle creep is a disease, then delayed gratification is one of the medications to manage it. It is important for all new physicians to continue delayed gratification in some fashion.

Case Report #2: Needs vs Wants

Dr. AP is a new doctor that joined a great practice in San Francisco. He always dreamed of living on the West Coast and is excited to start his new life. However, he also dreams of owning the new Tesla Model X. He drove his old Honda Civic during medical school and residency but now wants something new. After some debate, he decides to purchase his dream car. Now he’s able to drive to work with his “doctor car”, but he just incurred another expense.

Was this a necessary purchase or could Dr. AP have driven an older car to work and still be happy? The extra payments now going to his car could have been used for furthering his financial goals. Due to lifestyle creep and the need for instant gratification, he changed his standard of living.

How Will Instant Gratification Affect Your Future?
One way to avoid falling into the instant gratification trap is to compare needs versus wants. Do you need that new smartwatch or can you live with the older model? Can you delay these purchases and instead focus on financial savings? These are important questions to ask. Of course, it is prudent to enjoy your newfound success, but again, make sure to protect your future and not let lifestyle creep get to you. Doctors consistently fall victim to lifestyle creep and end up with more expenses than they should have. You do not want to retire with multiple mortgages and payments and no ability to pay them off. That means extra years working and not enjoying life.

**Delaying Milestones**

It is not only with material goods that delayed gratification should be practiced but also with gratifications of being an adult. The five milestones often touted for a successful adult are:

1. Completing school
2. Leaving home
3. Marrying
4. Having a child
5. Becoming financially independent

By going through medical school and residency, these milestones are pushed back in life. Most graduates of residency can check off numbers 1 and 2. Some can say they also have checked off 3 or 4. However, the point is that if
you can wait on some of the milestones and not rush into things, you will be better off. Don’t meet milestones for the sake of meeting them, but rather when it is economically feasible.

Don’t feel pressured when you see friends outside of medicine moving forward on these milestones and moving on with life. If you can save money living at home with your parents, do it. If you can delay having a child, that is a lot of financial savings. Instead of spending money right away, think about where else that dollar could go and gain value. Of course, this needs to be tailored for every person but the advice remains, don’t rush into things until you consider all the financial responsibilities.

The opposite is true for milestone #5 as you should pay off all your debts and save for retirement. We should hasten our visit to this milestone.

There is nothing wrong with wanting things, but don’t let instant gratification affect decisions impacting your financial health. As physicians, we often base things on risk and benefits, and financial decisions are the same. Base each gratification as a benefit vs cost analysis to see how it will affect you. Remember the long term goals of life and that you will still have many years to enjoy life. That’s why it is important to learn about managing your increased income.
#3 Financial Illiteracy

Of the countless hours it takes to become a physician, almost no time is spent on financial literacy and financial education. Newly minted physicians enter the world with six-figure salaries and no understanding of how money works. With a disposable income, lifestyle creep inherently takes control of your life. This is why learning how to budget is a necessary but learned skill in avoiding lifestyle creep.

*Case Report #3: Not Taking Advantage of Tax-Deferred Retirement Accounts*

Dr. KN is a new family medicine physician. During residency, he made the smart choice of opting into his employer’s 401K match, however, he did not invest in any other opportunities available to him, like the Roth IRA. His rationale at the time was that he could not afford to spend the extra $5500 a year to max out this account. After looking at his retirement accounts, he realizes that he has not met his financial goals and has to catch up.

Although the employer match helped him build a 401K retirement account of $20,000, he contributed nothing additional to his IRA account. If he had contributed $5500 every year for his three years spent in residency, he most likely would have doubled his funds.

**Doctors Need to Budget Too**

There are several methods to budgeting. Personally, I’ve had success with allocating a purpose for every dollar. This helped me minimize unwanted spending and see where money flows. In practice, it can look like this:

At the beginning of every month, sit down and allocate your take-home income for that month. For example, if your residency salary paid you $3000/month, you would allot each
dollar into specific purposes.

A Typical Resident Allocation:
$ 1300 to rent and electricity
$ 300 to groceries
$ 300 to eating and going out
$ 200 to car payments

$ 100 to student loan payments (consolidated with a physician plan)
$ 100 to transportation
$ 100 to internet and cell phone plan
$ 50 to online streaming websites
$ 250 to savings and retirement
$ 100 to disability insurance
$ 200 for incidentals

Doing this monthly will help you adjust and see where you can save. By allocating every dollar, you make it harder to overspend in different areas and avoid traveling further into debt. Budgeting also allows you to see how you spend money. If you notice that prior month’s outgoing expenditures increased, you should consider decreasing your expenses the following month to compensate. Budgeting is a simple game of checks and balances.

Budgeting for Savings, Retirement, and Student Debt

Putting money towards savings, retirement accounts, and your student debt is an important part of becoming financially...
independent. Remember, as physicians you start off making money at a later age compared to the general public. It would be wise to have at least 3 months in savings that is easily accessible, like a high-interest savings account. Attempt to max out contributions to your retirement accounts (401k/IRA) so that you can meet your retirement goals.

Any extra money put into your student debt is guaranteed return of whatever your interest rate is. If your student loan interest rate is 7%, any dollar paid off is a 7% return on investment risk-free. That dollar is one less dollar for which the bank can charge you 7%. As a comparison, most high-interest savings account from banks give you around 2-3% interest, while your retirement accounts can average about 7% historically. Depending on the market, your retirement accounts have risk and can go up and down, so it is not 100% guaranteed. When paying off your student loans, you will always get back your interest rate.

Conquer the Creep!

In summary, lifestyle creep is a slow but steady change in your standard of living which can lead to runaway expenses, failure to save for your financial future, and cost you money. As physicians, we are at risk because of our newfound income
when we transition from resident life to attending. Lifestyle creep worsens from our need for instant gratification and our lack of financial education. It is important to reward ourselves, but make sure to do so without jeopardizing our future. Learning to grow into our income, continue to practice delayed gratification, and budget correctly by choosing smart financial decisions can help us avoid lifestyle creep.

What consequences have you paid because of failure to control lifestyle creep? What have you done to combat it? What advice do you have for physicians who bought into too much house, car, and inflated spending habits? Comment below!

A $4,300 Family Vacation in Paris and Reykjavik

[Editor’s Note: Today’s WCI Network post comes from Physician on FIRE and is all about a past vacation he took with his family. Wondering how FIRE advocates and other frugalistas go on international trips? Well, this is what they look like.]

Last fall, my inbox teased me with a remarkable deal. Paris for $410 Roundtrip.

I clicked where the e-mail told me to click for further details. Amazingly, the deal offered lined up with time I had off from work and partially coincided with our boys’ spring
The flights were on Icelandair, an airline I’ve flown on a couple prior trips to Europe. As I have twice before, I took advantage of the free stopover option, extending our layover on the way home from a couple of hours to a couple of days. Within an hour of receiving the e-mail, our family of four was booked for a trip to France and Iceland. After visiting Florida over spring break two of the last three years, embarking on a European vacation would be quite the departure for us.

Pre Flight Preparations

We wanted our boys to be excited about the trip, but also to understand that it wouldn’t be all about them or entirely for them, like a family vacation to Florida tends to be. Amazon Prime had some videos that highlighted our destinations, including a show specific to touring Paris with younger children, and we saw the highlights of Iceland in another.
Our local library had a book about Paris aimed squarely at the grade school crowd. A kind cousin sent the boys a care package that included a Mission Paris book that sent our boys on discovery missions at many of the major attractions throughout the city. There were practical considerations. We had to apply for passports for the young ones with plenty of time to spare. One of their pictures was rejected for too much smiling of all things. The kid’s eight. He’s happy. Give me a break.

My wife and I also viewed Woody Allen’s Midnight in Paris a second time, and borrowed tourist books on both Paris and Iceland from the library, and renewed them to take on the trip.

Our cell phones work worldwide on wifi, so we knew we could keep in touch without much trouble. The AirBNB apartments we rented were equipped with wifi, and the apartment in Paris had a washing machine, so we would be able to pack light.

How We Spent $500 a Day

This is a money blog with a side of travel, so I’ll be reporting on our trip from a perspective that focuses on the
We vacation much in the same way that we live our lives. We don’t splurge often and don’t like to waste money, but we target our spending to get the most bang for our buck in the areas that matter to us most. To some people, that will be food, and it’s really easy to splurge on food in Paris and Reykjavik. Others like to pay for comfort and luxury in travel and accommodations.

We like food, but we’re not foodies, and we’re perfectly happy with three-star accommodations. We’re most interested in seeing the sites we want to see, snapping the photos I want to shoot, and making sure the boys get a rich cultural experience.

I’ll break down our choices and costs by category:

- Transportation
- Lodging
- Food
- Drink
- Experiences

That covers just about everything other than gifts we bought for friends and family back home, but I’m not gonna lie – that was just Icelandic beer and booze from the Keflavik duty free shop.
Transportation

European capitals are typically easy to navigate by subway and train. Paris is no exception. We probably hopped on and off the subway 30 times and never waited more than four minutes. The express RER trains come a little less frequently, but zip you across town with fewer stops.
We actually took a taxi to our apartment when we arrived. We were sleep deprived after a red-eye and public transportation from ORLY seemed a bit complicated and would have cost just as much as the fixed cost of 35 Euro to Paris’ 4th arrondissement.

The morning of our first full day in Paris, we bought 3-day Visite passes for unlimited public transportation within zones 1-3 (we never left zone 1). We would have bought a 4-day pass, but they don’t offer that flavor. On the fourth day, we bought 1-day passes.

Day five, we bought the 5-zone pass on the RER train to Disneyland Paris, and bought one-way tickets back. Day six, we bought one-way tickets to our departing airport, Charles de Gaulle, which, although further from the city than Orly, is an easy single train ride away. For four of us, it still cost just about as much as the taxi from Orly, though.

In Iceland, we rented a car. Gas, like everything else under the midnight sun, is quite expensive at nearly $8 a gallon, but we wanted to drive the Golden Circle and have transportation to and around Reykjavik, so the car was a no-brainer at under $60 a day for two days.

What about airport parking back home while we were away? I
planned to park at a shuttle lot near the airport, but when we pulled up, it was full! We phoned a friend who lives reasonably close, and asked if we could park in the driveway. Thank you, friend!

I dropped the family off at the airport, parked at our friend’s house, jogged the 3.1 miles to the light rail transit stop, and joined my family at the airport shortly thereafter. I could have taken an Uber (I did on the reverse trip when we got home), but an impromptu 5k seemed like a good idea at the time.

I snapped this photo of geese walking on water with my phone along the route.

Total Transportation Costs:

- Iceland Car Rental $113
- Iceland Gas $50
- Paris Taxi: $37
- Paris Public Transport: $198
- “Parking” = Uber + Light Rail: $13
- Four Roundtrip Flights: $1,668
- **Total: $2,079**
Lodging

Paris and Reykjavik are known to be a couple of the world’s more expensive cities. A small hotel room in a central location in either city starts at $200 US and goes up from there. Traveling as a family of four, we were not enthused at the thought of squeezing into a few hundred square feet, listening to our youngest snore (he was getting over a cold), looking for laundromats (or packing 3x as many clothes), and eating every meal out.

Airbnb to the rescue!

Our criteria for an apartment in both locations were specific. Two bedrooms. A kitchen. Within walking distance of the town center. And no more expensive than a hotel.

We were able to find a place in both cities that met all our criteria for about $160 a day, and we had quite a few places to choose from.
In Paris, we had a seventh-floor apartment with views of the Eiffel Tower, Parthenon, Notre Dame, and Sacre Coeur. Within a block, we had a small grocer, a bakery, and a few small cafes. A few blocks further, we had metro stops and a supermarket. We were on the “Right Bank,” a block north of the River Seine. It was a great location.
The Icelandic apartment was a quirky setup in the basement of a home about a block away from the large pond known as Lake Tjörnin, and a few blocks south of downtown and the main shopping district along Laugavegur. There was a public swimming pool (these are a big deal in Iceland) within walking distance, but we chose to drive to a couple better ones that were equipped with waterslides.

If you haven’t tried Airbnb before, I recommend it, and I can save you $40 if you sign up through this link. Be sure to read reviews and understand that you’re usually staying in someone’s place. Expect to see some personal effects, have a half-full pantry, and in Europe at least, there may not be a coffee maker, much to my wife’s chagrin.

Airbnb is a great way to find unique lodgings, like treehouses, houseboats, and Airstreams.

Total Lodging Costs:

- Paris Airbnb $1,010
- Iceland Airbnb $321
- **Total: $1,331**
Food

**There were no vegetables.** My wife wants you all to know how I deprived her and our once-growing children of any vegetables.

I did pick up a salad mix once and bought some frozen cauliflower in Iceland, but compared to our normal diet, vegetables, like us, were on vacation.

As I stated, we’re not exactly foodies, and I’ve got more food aversions than I like to admit. We’ve also got American kids that eat like most American kids, so fine dining was not on our menu.

Our first evening in town, we sat down at an outdoor café where little English was spoken. We ordered the fixed price meal of the day, and a chicken quesadilla for the boys. I’m not sure what we ate – there was an appetizer that was cheese and tomato based, the main course had shrimp and some kind of food in a hollowed out squash, and a dessert that was the yummy love child of crème brûlée and bread pudding.

After dinner, we went grocery shopping.

Breakfast every day consisted of fruit, bread, and cheese. We picked up fresh baguettes daily and packed sandwiches with cheese and three or four kinds of meat (deli ham, prosciutto, salami, chorizo) to go. We generally had our dinners out, but sautéed a couple kinds of fish at home one evening in Paris.

**In Iceland**, on average, everything costs about double what you would expect to pay. By the time we were settled in our apartment, it was past dinnertime, and we somehow ended up at the mall. A plate of subpar Chinese food was $17 USD and a
footlong sub with a drink was over $10 — and that was the daily special.

After looking over a few menus at the mall and downtown, we decided to do some grocery shopping. We somehow spent nearly $100 for two days worth of food. That included a nice big chunk of marinated salmon, more sandwich supplies, gelato, chips, crackers, cheeses, breakfast cereal, and four cans of a Redbull knockoff that was the bargain of the trip at 59 Icelandic króna (about $0.55) or half the price of a diet cola.

Drink

There was no coffee. I get nasty looks when I book a place that doesn’t have a machine where you push a button as you roll out of bed and have fresh coffee by the time you wipe the sleep from your eyes. I got nasty looks in two countries.

The French apartment had only instant coffee, and the Icelandic one had a malfunctioning French press (you’d think the French place would have had a French press, am I right?). My wife jerry-rigged a drip system and somehow survived. I get my fix from diet soda, which was not hard to
come by in either destination.

**There was beer.** While on vacation, I crave good beer in the evening as much as she needs her morning java. The Carrefour Market in France was the best source for all our grocery needs, including €0.55 baguettes, and it was a superb beer stop. 33 cl bottles of Chimay and Duvel for ~ €1.50. Six packs of Leffe Triple and Hoegaarden for ~ €5.50 and €4.50. €3.00 to €4.00 bombers of IPA. Six evenings of quality “imports” set us back less than $40 USD.

![Happy hour: Royale with cheese](image)

**In heaven, there is no beer.** In Iceland, there is no affordable beer. The first evening, I bought three singles for $13 and decided to save them for our last night. I bought a $29 six pack of an Icelandic Imperial Stout at the duty-free shop, which was actually a nearly 50% discount from the shelf price at Vínbúðin.

Total Food & Drink Costs:
Experiences

Experiences are where it’s at. There are plenty of great travel experiences that don’t cost a thing, but you can’t experience the views from the top of the Eiffel Tower without paying for the right to go up there.

There are probably ways to sneak into Paris’ catacombs, but we took the safe route, paid the price of admission, and waited the two hours in line. The bones had been waiting for us for centuries, so two hours seemed reasonable. That was the longest line by far that we experienced on the trip.
When you’ve got six days to explore a city like Paris with a rich history and a main attraction on every other block, you’ve got to pick and choose your experiences, and try to squeeze in at least a couple each day.
Our whirlwind tour included The Louvre, aforementioned Eiffel Tower and Catacombs, the Arc de Triomphe, Notre Dame, Sacre Couer, Opera Garnier, several other churches and historic buildings, numerous parks, playgrounds, and the happiest playground in Europe: Disneyland Paris and it’s neighbor, Walt Disney Studios.

Our boys (6 & 8) impressed us with their stamina and relative patience. They loved the subway system and probably walked at least five miles a day. We were out of the apartment eight to ten hours a day and they were troopers, even in places that weren’t particularly exciting for them.

It helped that we had the Mission Paris book and the promise that if they earned enough points, we would take them someplace amazing on our last day. A place I referred to as “le church de Saint Mickey (pronounced Mi Kay)” They didn’t get the joke, which made for a wonderful surprise.
Amazingly, four one-day passes to both parks only set us back $196. You couldn’t snag two one-park passes for that in the states.

In Iceland, we had grand plans to drive the Golden Circle which includes a continental divide, a geyser with the killer name Strokkur that spews hot water every five minutes, and a ginormous waterfall called Gullfoss.
We stepped out at Þingvellir to see the place where the tectonic plates are spreading apart at the same speed our fingernails are growing (true story).

We stepped into 40 mph winds to be pelted in the face by small hunks of slushy wetness. We sprinted to the crowded visitors center and back to the car a minute later. I snapped one quick photo and recalled how lovely the place was when my wife (fiancée back then) and I visited in June nearly ten years ago.

We were less than halfway to the geyser and waterfall when the road started to look impassible with accumulating slush and blowing snow. I’m no stranger to driving in inclement weather, but when the axles and muffler start to forge a path through the wet packed snow, it’s time to turn around.
We regrouped, took a few hours stroll through town, made dinner, and hit up a neighborhood swimming pool.

These pools are all the rage in Iceland. You can’t pass high school without being a proficient swimmer, and the geothermal energy keeps these mostly outdoor waterparks cozy warm year round. This was my third two-day stopover in Iceland in fifteen years, and I made my third pilgrimage to Laugardalslaug that first evening.

We found an even better pool at Árbæjarlaug the second evening. The weather became atrocious by the end of our third hour there, but you haven’t lived if you haven’t walked from the sauna to the 42° to 44° (107.6° to 111.2° F water) hot pot in a full-on blizzard.

Your blood is near boiling, your head and neck are at risk of hypothermia. On average, you’re just right.
Total Cost of Experiences & Admissions:

- Paris Experiences: $428
- Iceland Experiences: $38
- Total: $466

The Grand Total

Cost of our European Vacation:

- Transportation: $2,079
- Lodging: $1331
- Food & Drink: $417
- Experiences: $466
- Total: $4293
Altogether, this nine-day trip (which was essentially eight days in Europe plus travel time) cost us just under $4,300 or nearly $500 a day.

Extrapolated to a 365-day year, it would cost us $174,105 to live this way year-round, and that’s not accounting for any other fixed expenses. Of course, we wouldn’t choose to travel at this frenzied pace all year long.

How We Would Slow Travel Differently

With an early retirement feeling imminent, I view most vacations not so much as escapes, but as scouting missions. We see how our boys handle different environments and schedules (better than anticipated). We learn what it’s like to live and how much it might cost to be in these far-flung places.

I find myself thinking about how I would do these trips differently if I had a month or two rather than a week or so. For example, I read with envy the detailed breakdown Justin @ Root of Good gave us for his upcoming Europe and vacation. He’s planning nine weeks, 8 countries, and 14st
cities with a budget of $10,000. What would we do differently if we had 90 days instead of nine?
We would do one big paid experience every two or three days instead of two or three a day, and would have time before and after to learn more about the museum / historical site / iconic tower.

We’d be more efficient with grocery shopping and meal planning.

We would have reloadable public transport cards and would pay for trips as needed.

Beer drinking would resemble our home pattern of maybe three nights a week and not eight.

Adopting a slow travel mindset, we could probably stay someplace five times as long for about double the cost of a one-week trip. The airfare is a fixed cost. We probably would not spend much more on admissions to attractions. We’d spend
more on food and perhaps more on lodging, but certainly less on a per-night basis.

Have you had an opportunity to slow travel? What’s your biggest travel splurge? Questions about traveling with kids? I’m happy to swap stories in the comments below.

401(k) Loans Are Not An Investment

Should I Borrow Against My 401(k) to Get Bond-like Returns in it?

Q. We took maximum loans against our individual 401(k)s because we knew our jobs were VERY stable. We charge ourselves the maximum interest, paying the loan back with after-tax money obviously. Since the interest rate is more than current bond yields, we feel this would be a good investment. I might miss bigger returns by not investing in equity market, but I have a higher yield than the bond market, and feel like I am exposed to less volatility risk. What do you think?

The Return is 0%. That Is NOT Bond-like.

A. You’re not the first to think of this. Given the interest rates on 401(k) loans are Prime (currently 5.25%) + 1-2%, a guaranteed return of 6-8% on 401(k) money can seem pretty attractive. However, what you must realize is that the return on investment here is not 6%, it’s 0%. The reason why is that
you’re paying the interest yourself. You pay 6% to yourself. So you pay 6% and you receive 6%. There’s no extra 6% there. 6% – 6% = 0%. You had the same amount of money you had before. Let me explain.

Imagine you had $10,000 in your 401(k) and $600 in a taxable account, for $10,600 total.

Now you borrow $10,000 out of your 401(k). You now have $0 in your 401(k) and $10,600 in your taxable account, for $10,600 total.

A year later, you pay the $10,000 back to your 401(k) along with the $600 in interest. Now there is $10,600 in your 401(k) and $0 in your taxable account, for $10,600 total.

Where’s the investment return? That’s right. There isn’t any. Don’t believe me because I’m just a doc? Would you believe Michael Kitces?

Technically it does allow you to put more money into your 401(k), since all of the interest paid does actually go into the 401(k). However, it’s even worse than a non-deductible IRA. Not only do you not get a deduction for that interest paid into the 401(k), but it doesn’t even increase the basis of the 401(k). You put after-tax money in, but when you take it out you have to pay taxes on it! That’s a lousy deal.
Essentially, that money paid as interest would be taxed twice.

Besides, even if this were a good deal, it would be a pretty limited one. You can only borrow out half of your 401(k), up to a total of $50K. So assuming only one 401(k) for you and one for a spouse, this would only work for $100K of your portfolio. That’s a significant chunk of a $500K portfolio, but not of a $5M one.

**401(k) Loans Are Not Double-Taxed**

Please note, however, that 401(k) loan PRINCIPAL is not double-taxed, only the interest paid on that loan is taxed twice (once when you earned it at your job and again when it is withdrawn from the 401(k). This has been well-explained [here](#), [here](#), and [here](#). Note that if you borrow from the Roth side of the 401(k), that double taxation doesn’t occur, making the “deal” slightly better (although the return is still 0% and you’ve now lost the opportunity cost on a larger amount of after-tax money to get the same size loan.)

**401(k) Loans Not As Bad As They Used To Be, But Still Bad**

401(k) loans used to be really bad. If you had an outstanding loan and were fired or left the job, you had to have it paid
back within 60 days or it would not only become taxable income to you, but there would be a 10% penalty due to the IRS. Thanks to the tax law changes made at the start of 2018, you now have until your tax return is due (including extensions) to pay the loan back without penalty. So if you took out a loan on January 15th of 2019 and then quit your job, you could have up to 21 months to pay it back. That’s good, since about 10% of 401(k) loans were never paid back prior to the law change.

So if paying prime + 1% to your 401(k) provides a much lower interest rate than any other option you have, a 401(k) loan might still make some sense. However, a rule of finance is that those who receive interest generally come out ahead of those who pay it. That fact doesn’t change just because you’re borrowing your own money. There is a cost there and it’s the same cost whether you spend cash you have, spend a bank’s money, or spend money borrowed out of your 401(k). It’s opportunity cost. Money used to consume can’t be invested at the same time. (Technically there is an exception to that, but the downsides of that technique often outweigh the upsides.)

Those who receive interest generally come out ahead of those who pay it. That fact doesn’t change just because you’re borrowing your own money. There is a cost there and it’s the same cost whether you spend cash you have, spend a bank’s money, or spend money borrowed out of your 401(k).

Click To Tweet

**One Good Reason For a 401(k) Loan**
Whitney is very proud of the box she made in her woodworking class. Afton thinks it’s a great hiding place.

I can think of one good reason to take out a 401(k) loan. If your 401(k) sucks and you can’t get your employer to improve it, you can still contribute to the 401(k), then borrow the money (up to 50% of balance or $50K, whichever is less) out of it and invest it elsewhere. If your only choices are crummy 3% ER loaded actively managed mutual funds, that could be a good idea. Note that the 401(k) has to be REALLY terrible for you to come out ahead, since you’re basically now investing that money in a taxable account where tax drag (from capital gains distributions, dividends, and interest) occurs. If your 401(k) is really that bad, you might be better off leaving articles like this one around the office anonymously.

The bottom line is that there is no free lunch with a 401(k) loan, so don’t kid yourself that you’ve discovered one. If you have to borrow money, it’s not the worst way to borrow it, but I wouldn’t make a habit out of it.

What do you think? Have you used a 401(k) loan? Why or why not? Comment below!
How To Become Wealthy On A High Income

[Editor’s Note: The following post originally published as one of my regular columns for Forbes and gives 5 ways to rapidly turn a high-income into wealth. If you haven’t heard, we’re having combination discount on our online courses. If you buy Fire Your Financial Advisor between now and April 12th (and don’t take advantage of the 7-day, no-questions-asked money-back guarantee), you will also receive 13 hours of video from WCICON18— including Mike Piper, Jonathan Clements, and Bill Bernstein. You get BOTH courses for the price of one. Don’t delay, buy today!]

Income is Not Wealth

To the average American, the title of this post sounds silly. She may wonder, “Isn’t someone with a high income already wealthy?” This person has not yet learned a critical distinction and an important lesson in building wealth—income is not wealth. The most common measure of wealth is net
worth—everything you own minus everything you owe. It is entirely possible to have a very high income and have a negative net worth. Likewise, it is entirely possible to have a very low income and yet possess vast sums of wealth. Income is not wealth despite how our tax code, innumerable newspaper articles, and the majority of people talk about it.

Even someone financially astute enough to recognize the difference between income and wealth may express surprise that an article like this one needs to be written; “Surely it must be easier to build wealth on a high income than on a low one, no?” The answer to that, of course, is yes, all else being equal. The problem is that all else is never equal.

As discussed in my very first column here at Forbes, high-income professionals typically face a number of barriers to building wealth. These include a late start (their 20s and even part of their 30s are often spent in education and training), a high student loan burden, a progressive tax structure, high liability, high stress/burnout levels, and a general lack of financial literacy/business training.

While most high-income professionals should become wealthy eventually, the above factors prevent a surprising percentage of them from ever building significant wealth. (Remaining factors such as divorce and lack of financial discipline are common in all income brackets.) Net worth surveys of physicians in their 60s, generally at the end of a 30+ year career, show that one-quarter of them have a net worth of less than $1 Million, and 12% have a net worth of less than $500,000!

The good news is that this is a relatively simple problem to fix. Applying a few rules of thumb to a simple spending plan can ensure that anyone with a stable, high income can build wealth rapidly.
5 Rules to Becoming Wealthy On a High Income

# 1 Save 20% Of Gross Income For Retirement

The first rule is perhaps the most important. The secret to building wealth as a high-income professional is to use your most important wealth-building tool, your income, to build wealth. This is done by not spending it and instead directing it toward wealth building activities like investing for retirement. Why is the recommended percentage 20% instead of the more commonly heard 15%? It’s the high-income professional factor. Your late start and smaller relative benefit from Social Security tax payments require more savings.

It really doesn’t matter what you do with the other 80%. You can spend it on a fancy house, a fancy car, fancy clothes, expensive vacations, private school for the kids, charitable contributions or heli-skiing. But that 20% is sacred. It must be dedicated toward saving for retirement.

Combining the 20% rule with a high income, a reasonable investing plan, and a typical career will result in retiring as a multi-millionaire. It really is that simple. Remember that 20% is from your gross income, so if you take the taxes out first it is really going to be 25-30%. 
Also remember that any savings for other financial goals such as college, a house down payment, or a new car is going to be above and beyond that. Extra payments toward debt are also above and beyond the 20% for retirement. While it would be nice to be able to spend that 20% on whatever you like, the good news is that even 80% of a high income provides a very nice lifestyle compared to the average American.

# 2 Pay Off Student Loans Within 5 Years of Completing Training

Lenders will permit you to put your student loans on a 20 or even a 30-year payment plan. This is generally a terrible idea for someone who actually wants to build wealth. The main reason is the income that is going toward servicing loans cannot be used to build wealth.

Want to become wealthy? Drive your cars a long time. This one is over 100 years old.

Perhaps more importantly, the financial discipline developed while paying off the student loans quickly can be redeployed toward building wealth. Most borrowers who pay off loans quickly also describe an emotional or psychologic relief at
doing so, like a great weight has been lifted from their shoulders.

Paying off a sizable student loan burden within 5 years while also saving 20% for retirement will require a period of relatively frugal living after training, typically lasting 2-5 years. Completing this “Live Like A Resident” period will require delaying gratification and fighting off a sense of entitlement.

It also helps if you can limit the amount of student loan debt in the first place. A ratio of loans to income of 1:1 is reasonable and represents a good investment in your future earnings ability. The higher that ratio gets, the longer and more drastic the frugal living period will need to be.

# 3 Don’t Become House Poor

Americans generally overestimate the amount of happiness they will get from owning a large, expensive house. Combining this with widely available “affordability calculators” available on the internet gets many doctors and others into financial trouble.

It helps if you realize that the ratios commonly used by lenders are for their benefit, not yours. They represent the maximum percentage of your income at which you are likely to be able to make the payments, not the optimal ratio for you to build wealth. A lender may be comfortable with payments that are as much as 43% of your gross income, but you shouldn’t be. Since 20% of your income is going toward retirement savings and perhaps as much as 30% is going toward taxes, a house costing 43% of your incomes leaves only 7% for everything else.

A much better rule of thumb is that your housing (rent, mortgage, property taxes, insurance, and utilities) should cost no more than 20% of your gross income. An easier one to
use that provides similar outcomes is to keep your mortgage to less than twice your gross income.

This ratio works very well for most high-income professionals in most areas of the country. In some very high cost of living areas, one will sometimes need to stretch that out a bit, perhaps to 3-4X your gross income. But realize there are very serious consequences to doing so, including working longer and spending less in other areas of your life.

# 4 If You Can’t Pay Cash, You Can’t Afford It

The easiest way to know if you can afford to buy something, at least outside of paying for medical school or your primary house, is to see if you can pay cash for it. Borrowing money to pay for cars, boats, vacations, appliances, furniture, or anything else is a good way to ensure that your income services payments instead of building wealth.

This concept seems amazingly simple, but there is almost always a less expensive version of whatever it is you want to buy. If you don’t have the money for the more expensive version, don’t buy it. This key principle of frugality is perhaps best exemplified by the classic saying from the Depression era—“Use it up, wear it out, make it do, or do without.”
It doesn’t matter where your friends, family and neighbors vacation, what they drive, or where they send their kids to school. What you can afford and what they can afford are two very different things and resisting the urge to “keep up with the Joneses” is critical to building wealth. Wealth is actually the cumulative sum of all the things you didn’t buy but could have.

**# 5 Choose A College You Can Afford**

The same principle of frugality applies to college selection. There is a dramatic difference in cost from one college to the next, even when the quality of education is very similar. If a family cannot afford a given college between their savings, their cash flow, scholarships, and the student’s work during summers and the school year, they cannot afford that institution and should select one that costs less.

There is little reason to borrow for undergraduate education. This recommendation breaks down when discussing professional schools like medicine, dentistry, and law, but presumably, these degrees will eventually generate sufficient income to justify some debt (see # 2 above.)

It should be relatively easy for a high-income professional to build wealth, but it isn’t automatic. These five rules of thumb will help any physician, dentist or attorney rapidly
What do you think? Why do you think those with a high income have such a hard time building wealth? Do you have additional rules of thumb you would include? Comment below!

401(k) Vs HSA: A Showdown

I’ve long made the contention that a Health Savings Account (HSA) is the best investing account. Today, for the first time on this blog, we’re going to put some numbers to it. We’re going to throw a HSA into the octagon with a 401(k) and see who comes out on top. Two accounts go in, but only one account comes out on its feet.

The 401(k)

First, in the South corner wearing the red trunks we have the staple of the current American retirement system, the 401(k). Founded in 1981, it provides for tax-deferred (or Roth) employee contributions of up to $19K per year ($25K if 50+) plus the opportunity for employer match or profit-sharing.
contributions up to a total contribution of $56K per year. It provides the largest tax break available for most doctors and protects their retirement assets from their creditors and the taxman as it grows.

Depending on the employer, it may suffer from high fees and crummy investment choices. You also may not be able to transfer the money away from the employer until you quit, are terminated, retire, or die. The 401(k) allows you to borrow up to $50K (or 50% of the balance, whichever is smaller) from it. Additionally, you can roll your 401(k) over to an IRA which, if left to heirs, can be stretched for additional decades. Although there are a few exceptions (including early retirement) if you want to access the money prior to age 59 1/2, you will owe a 10% penalty in addition to any taxes due. Clearly, a 401(k) is a formidable champion when it comes to investing accounts.

For an individual 401(k) one option for you could be Rocket Dollar. They administer self-directed Solo 401(k)s and IRAs. Because it’s self-directed, you can buy real estate properties on your own or leverage RE crowdfunding platforms like Equity Multiple, RealtyMogul, Fundrise, Roofstock, CrowdStreet, etc.

The HSA

However, our challenger, wearing blue trunks in the North corner, is no slouch. Camouflaging its true purpose with the name Health Savings Account, this Stealth IRA packs a real punch. Fresh on the scene in 2004, it provides for triple tax-free contributions of up to $3,500 ($7,000 family) per year but does require the use of a High Deductible Health Plan.

Although not the largest account out there (neither is the 401(k)), it is like a wolverine that punches way above its weight. Not only do you save income taxes when you contribute, but if the contributions are taken directly from your paycheck by your employer, you also save payroll taxes. In addition, so
long as you spend the money on health care, you can withdraw money from the account tax and penalty-free at any age. HSAs shield investments from the taxman (although probably not from your creditors) as they grow over the years. You also can pull the money out of the account years after the health care expenses without tax or penalty as long as you keep receipts. Although the penalty for pulling money out of the account inappropriately is higher (20% for non-health care expenses before age 65), after age 65 its tax treatment is no worse than an IRA or 401(k) (thus the term Stealth IRA.)

It’s a lousy account to leave to heirs (probably the worst thing possible tax-wise), but since it can be used to pay for Medicare premiums and the other hundreds of thousands of dollars in health care expenses most seniors face, that shouldn’t be too much of an issue. If your employer’s provided HSA plan stinks, you can roll the money over to your own chosen plan once per year.

Let the battle begin.

401(k) vs HSA: the Head to Head Competition

Let’s say you have $7,000 to invest, but you’re not sure whether to put it in your 401(k) or your HSA (and for some
crazy reason can’t max out both accounts.) Which account is going to be most advantageous to you?

**Initial Tax Break**

Assuming a 35% marginal tax rate, if you contribute $7K to the HSA, you save $7000 *35% = $2,450 in federal/state income taxes. But you also save payroll taxes. For a typical employee doctor, this is just going to be 1.45% in Medicare, or another $102 for a total upfront tax break of $2,552.

If you contribute that same $7K to the 401(k), you only save the $2,450 in income taxes. But wait, what if there’s an employer match? Let’s say your employer matches up to 25% of the first $4000 you contribute to the account each year. That means there is now $8,000 in that 401(k).

Advantage: 401(k), but only if there is a match.

**Available Investments**

It might be hard to get hurt in three foot deep powder, but should it happen, you’ll prefer an HSA to a 401(k).
Your unenlightened employer doesn’t offer particularly good investment options or fees in either account. However, at least with the HSA, you can roll the money out of the account once a year to a plan with better investments and lower fees. Let’s assume the 401(k) money grows at 7.5% and the HSA money grows at 8% per year over the decades. I thought 0.5% was a reasonable average additional fee for plan fees and higher ER mutual funds. That may overstate or understate the case for your 401(k).

Advantage: HSA, but could vary by employer

**Need Money Now**

Uh oh. Something has come up. You need cash. Which account should you tap? Well, withdrawing from the 401(k) incurs taxes and a 10% penalty. Withdrawing from the HSA incurs taxes and a 20% penalty. You can borrow against the 401(k), but the terms aren’t that hot with a fairly high interest rate. Luckily, you spent a few bucks on health care this year and have some receipts saved up, so you can actually withdraw the needed money from the HSA tax, penalty, and interest-free.

Advantage: HSA

**Creditors Come Knocking**

There’s a potential suit above policy limits. Your state protects your 401(k) in bankruptcy but provides no such protection to the HSA. Luckily, like happens almost all the time, on appeal, the judgment is reduced to policy limits and you lose no personal assets.

Advantage: None

**Time to Withdraw Money In Retirement For**
Health Care

Now you’re 70 and need to pay some health care expenses for recent cancer treatment. Where should you take the money from? If you take it from the 401(k), you’ll owe taxes at your ordinary income tax rates. If you take it from your HSA, the withdrawal will be tax-free. Just how much of an advantage does the HSA have here? Let’s run the numbers. We’ll add that original Medicare tax savings into the HSA total for simplicity and the match into the 401(k), then apply 30 years of compound interest.

HSA: \( \text{FV}(8\%, 30, 0, -7102) = \$71,464.99 \) Multiply by \( 1 - 0\% \) for taxes and you end with \$71,465 to spend on health care.

401(k): \( \text{FV}(7.5\%, 30, 0, -8000) = \$70,039.64 \) Multiply by \( 1 - 25\% \) for taxes and you end up with \$52,530 to spend on health care.

Despite the employer match, the HSA ends up with 33% more money. You can buy a lot of health care with an extra \$19K, especially if you multiply that by 20 or 30 years of HSA contributions.

Advantage: HSA

Time To Buy A Sailboat

With your cancer scare over, it’s time to get out on the bay
in a new sailboat. Which account will provide a larger sailboat? Let’s run those numbers again:

HSA: \(=FV(8\%,30,0,-7102) = \$71,464.99\) Multiply by 1 – 25% for taxes and you end with \$53,599

401(k): \(=FV(7.5\%,30,0,-8000) = \$70,039.64\) Multiply by 1 – 25% for taxes and you end up with \$52,530

The HSA wins, but not by much.

Advantage: HSA

Game, Set, and Match to the HSA

As you can see, in the vast majority of comparisons, the HSA is going to come out on top as the best of the two investing accounts. Even when it is not superior, it is typically about the same as or not much worse than the 401(k). And when it is superior (paying for healthcare before or during retirement) it is dramatically superior thanks to its triple tax-free nature. That said, a 401(k) is still a very good place to invest and ideally, you’ll be able to max out both and even invest in a taxable account above and beyond your tax protected accounts.

What do you think? Which do you think is the best investing
account? What is the first account you fund each year? Comment below!

The Different Levels of Wealth Explained in Simple Terms

[Editor’s Note: In today’s post from WCI Network partner Passive Income, MD, Peter Kim refers to one of my favorite episodes of one of my favorite podcasts. I agree with Peter and Stewart Butterfield about the levels of wealth. Money can make you happier right up until the time you swap a chair lift for a helicopter. Beyond that, it’s hard for me to imagine how money can bring you any more happiness.]

Recently, I listened to an especially interesting episode of my one of my favorite podcasts, How I Built This. In it, the host interviewed Stewart Butterfield, the founder of Slack.

If you’re not familiar with Slack, it’s a collaboration and communication tool used by some of the largest, most well-known companies in the world. In fact, I personally use it to communicate with the WCI Network and my team of business managers and virtual assistants at Passive Income MD and Curbside Real Estate.

It’s also one of the fastest growing companies in history. Founded in 2013, it saw phenomenal growth and now has a
valuation of over $7 billion. Not too shabby. In the podcast interview, Butterfield recounts a fantastically inspirational story of failure, pivoting, endurance, and success. It’s very motivating, but it’s not the reason I bring it up.

The real reason I was fascinated by the interview was that at the end of it, the host, Guy Raz, asked Butterfield one question about his newfound wealth. “Does that eliminate stress in your life?” Raz asks. “Does that mean that everything is set, everything is taken care of?”

Butterfield’s response was fascinating, and I had to play it back several times to get the full effect. He said that he believes there are three levels of wealth in the world, and knowing where you’re at depends on how you think.

**Butterfield’s Three Levels of Wealth**

Here are his three different levels, which are really three different mindsets relating to finances:

1. I’m not stressed out about debt – meaning people no longer worry about their credit card bills or student loans.
2. I don’t care what stuff costs in restaurants – meaning
it doesn’t matter how much you spend on a meal.
3. I don’t care what a vacation costs — the “ultimate level,” meaning you don’t care how expensive a hotel is or which flight you take.

Beyond the ultimate level, Butterfield said that additional wealth doesn’t really matter or make any other impact in his life. In fact, he says he aims to give almost all of it away, because he doesn’t think he’ll get additional happiness from spending it, and there’s a lot of suffering and inequality in the world.

These are powerful words. Not only that, but it’s so refreshing to hear someone distill the vast complexities of wealth and finance down to such simple terms.

Here I was thinking of wealth in terms of a specific number or a huge landmark, like reaching financial freedom from medicine. Of course, that’s important, but when you think about it, what really matters about wealth is how it impacts the smaller things in your daily life.
in fact, there may be more than just the three levels Butterfield mentioned. But before I continue, I think it’s important to sidestep here and mention some studies that Butterfield briefly referenced as well.

Happiness, Wealth, and Income

The first study is titled “Happiness, income satiation and turning points around the world.” The study is a large analysis published in the journal Nature Human Behavior. They used data from the Gallup world poll which aggregated answers from 1.7 million people from over 150 countries.

The study found that the ideal income for individuals is $95,000 a year to achieve life satisfaction and between $60,000-$75,000 a year for emotional well-being. Of course families with children would require more, but that didn’t factor into this particular study.

This and other studies in the past have shown that income above these amounts does not improve one’s life any further (i.e. make you happier). The problem with more money, in this situation, is that people simply tend to hop on the hedonic treadmill, spend more, and only cause more issues. As a wise man once said, “mo money, mo problems.”

Another study, a survey conducted by Charles Schwab, asked 1,000 Americans from age 21 to 75 what level of personal net worth would make them feel “financially comfortable.” The answer was an average figure of around $1.4 million. If they had $2.4 million, they would consider themselves wealthy, and ultimately comfort = happiness.

It would seem that there is a strong correlation between wealth or income and (perceived, at least) happiness. Personally, I believe that the exact number depends on where you live.
For example, in northern California, you’re considered low income in some areas if you make below $117,400, whereas, in other parts of the country, you would be living like royalty for that amount. That’s part of the concept beyond geographic arbitrage that my friend Physician on Fire loves to talk about. In short, it does matter where you live and how much you have when you’re there.

Five Levels of Wealth

So, instead of a distinct monetary amount, it’s nice to think of it in terms of real life situations we can relate to. This takes into account the cost of living and really what your lifestyle is like.

Using these ideas as a framework, I’ll explain my version of the different levels of wealth adapted from Butterfield.

1. I’m not stressed about having a roof over my head or a basic meal.

Nothing in life matters if you don’t have these basic human needs. At this point, it’s all about survival. There are plenty who are below this line and unfortunately, it’s a problem to which our society hasn’t found a solution. However,
it’s safe to say that physicians don’t have to worry about this.

2. I’m not stressed about debt.

As high-income professionals who have been through many years of education to get where we’re at, we’re no strangers to debt. According to the Association of American Medical Colleges (AAMC), as of 2017, the average medical student averaged $179,000 in debt. No doubt it’s higher today.

In fact, we took a recent poll in our Facebook group, Passive Income Docs, and almost 25% of physicians in the group had more than $250,000 in debt.

That’s a mountain of debt to work your way out of when starting. Yes, it helps to refinance their student loans, and as the White Coat Investor always preaches, most should focus on getting rid of that debt within the first 5 years. That way they will be able to climb out of this level onto the next.

3. I don’t care what stuff costs in restaurants.

Do you base your restaurant choice on what food you feel like eating or is it based on a budget constraint? And once you’re there, does the price next to the item dictate what you order?

I completely understand this level because my wife and I are somewhat foodies. After having children, we can barely make it out past 10 pm without being tired, so going out and having a nice dinner either by ourselves or with friends is a valued treat.
So we choose where we go based on the restaurant or what we feel like eating, not so much what it costs. And when we go, we try to eat their signature and popular dishes. We pay for the experience, and it’s worth it for us. This doesn’t mean we’re eating fancy every night, because we all know that the price of the food doesn’t always correlate with how good the food is or how many Michelin stars it has.

Reaching this level doesn’t mean going out and spending hundreds a week eating out, but when you’ve reached the point where the cost of your meal doesn’t factor into your decision to eat it, you can move to the next level.

4. I don’t care what a vacation costs.

I don’t think this means you’re obligated to stay at the nicest hotels and always fly first class. It’s just that you can do whatever you want, depending on the experience you’re looking for. All of this comes down to choice.

If we’re traveling with children, we’re looking for the hotel with the best amenities for children. If you’re traveling to Europe, you may want to eat at places that provide an authentic experience. When you’re able to choose places because of the experiences they’ll provide, rather than the expense, you know you’re here.

Of course, let’s face it, if you had the choice to fly first
or business and money wasn’t an object, you’d do it every time. I’m not there personally, but I realize it’s all in the experience you want.

5. I am giving away a majority of my wealth over my lifetime.

In his interview, Butterfield talked about the previous level as the ultimate level. But I believe that this is truly the ultimate level.

I was blown away when I first heard about the Giving Pledge. According to their site, “The Giving Pledge is a commitment by the world’s wealthiest individuals and families to dedicate the majority of their wealth to giving back.”

It was started by none other than Warren Buffett and the pair Bill and Melinda Gates. It includes pledges by notables such as Mark Zuckerberg, Michael Bloomberg, Richard Branson, and George Lucas.

Giving is a great thing, but let’s be honest, it’s not always easy. That’s why I’m so inspired and motivated by movements like the Giving Pledge. If you can, take a look through the site. I hope it motivates you as well. It’s something that everyone can integrate in a small way at every level along the way.
I may never qualify as someone who never worries what a vacation costs or honestly feel financially comfortable enough to give most of my wealth away. But why not aspire to it? All I know is that I’m taking my own journey one passive income venture at a time.

Where are you on these levels of wealth and do you see yourself reaching the top level? Comment below!

Which is the Best HSA? Fidelity vs Lively Review

[Editor’s Note: We changed our guest post process 6 months ago to clear a backlog in guest posts we had and help us to manage them more efficiently and improve the quality of the content. Basically, now we take a look at guest posts once a quarter and choose the best 12 to run that quarter. Of course, human nature being what it is, our backlog has completely dried up and few send us guest posts any more. For the second quarter, we only had four acceptable submissions. That’s okay with me, we don’t have to run guest posts, but we’ve decided to extend our submission period for the second quarter until April 1st. So if you’d like to send us (jill (at) whitcoatinvestor.com) a guest post, now would be a great time. Here are the guidelines.]

Last year about this time I wrote a post about the Best Health Savings Accounts (HSAs) for those in my situation, i.e. those using an HSA as another retirement investing account. I was looking for the lowest possible fees and the best possible investments. I ranked and reviewed the twelve best HSAs. Lively came out on top, but not by much. At that time, I was
with the second choice on my list, HSA Bank, and the
difference in my case was only about $35 a year. That wasn’t
quite enough money for me to overcome my inertia and switch.

I Moved My HSA To Fidelity

Then, late in the year, a new development came on scene. Mutual fund giant Fidelity came out with an HSA. Even better, their HSA charges NO ANNUAL FEES AT ALL.

That was enough of a difference for me to get off my butt and actually make some changes. Even more motivating than lower fees was the opportunity to eliminate two financial accounts from my life. When I was at HSA Bank, I had an HSA Bank account and a TD Ameritrade account. By switching to Fidelity, I eliminated both of those two accounts from my life. I already had a Fidelity account (for the Fidelity 2% back card). Simplification is great.

I was worried I’d have to liquidate my account and move it over as cash. It doesn’t make sense to move in order to save $75 a year in fees if you’re out of the market for a few days and your HSA misses a $1,000 run up in the market. It turned out that was not an issue. I could just transfer my securities (100% VTI) in kind from TD Ameritrade to Fidelity. No big deal. There was a little bit of cash at TD Ameritrade and a
little at HSA Bank and that came over as well. I combined the
cash with my 2019 contribution ($7,000 for our family) and
invested it into a similar Fidelity Index Fund. Not only does
that mean I didn’t pay any commissions, but I don’t even pay
an expense ratio since I went with Fidelity’s fancy new Zero
TSM Fund.

I attempted to do the entire rollover online but was stymied.
However, a quick call to Fidelity got me a very friendly and
competent representative who took care of it so fast I
considered moving all my money from Vanguard to Fidelity. I
took a few screen shots of the process you may enjoy seeing.

No big deal, right. Just hit next.
Then you just have to choose your sweep account. No big deal. There’s obviously only one button to hit.

### Agree to Terms

**Open, read, and save each of the documents below.**

- **HSA Agreements (PDF)**
  - Custodial and brokerage agreements as well as information concerning privacy, fees, commissions, and FDIC-insured deposit sweep program

- **Terms & Conditions (PDF)**
  - Terms and conditions applicable to opening your account

- ** Trusted Contact (PDF)**
  - Describes the role and disclosures of a trusted contact. Add it to your account after it has been successfully opened.

- **Householding of Shareholder Documents (PDF)**
  - Description of how certain financial documents for your account will be delivered to individuals in your household

- **Electronic Delivery Agreement (PDF)**
  - The consent to receive certain financial documents for this account electronically rather than through the U.S. mail

In this application, "you" refers to the account owner. If you are unable to view or access these documents, please exit this application. You may obtain paper copies of this application or any of these documents listed above at any time at no charge by calling 800-343-3548.

Do you agree to the electronic delivery of the above documents?

- [ ] Yes
- [ ] No

There’s all the fine print if you want to read it.
See how easy this is? Click click click click.

Now all you have to do is transfer money from your bank (mine was already linked since I already had a Fidelity account) and buy an investment.
So I put my 2019 contribution in. Now there were a few more screens in there somewhere, but they were no more complicated than these. I just left them out because they showed my account numbers. It really was super easy to do this online, especially if you already have a Fidelity account. The rollover was a little trickier and I had to call customer service, but it happened very quickly and flawlessly. Now when I go into my HSA account, I can see my investments.

I log into Fidelity, click on the HSA account, and this is
Easy peasy. I have yet to pay any fee or commission whatsoever to Fidelity and I don’t have to do a thing with it until next January when I contribute again. Could I simplify things a little by paying $4.95 to sell VTI and buy FZROX with it? I suppose I could but... inertia. Maybe one of these days I’ll get around to it. The funds really are nearly identical.

The Lively Response

Right after I moved my account, Lively decided to match Fidelity by eliminating their already rock bottom fees in order to compete. By now my inertia had kicked in again and I really didn’t want to switch again just to go to Lively. Seriously, if they had made that change the week before I might have a Lively HSA. The downside of Lively for me is that I would still have that TD Ameritrade account to worry about and I would just be exchanging an HSA Bank account for a Lively account. But the fees would be almost the same. I would pay Lively nothing and I would pay TD Ameritrade $6.95 once a year to buy $7K of VTI. Super cheap.

Fidelity vs Lively Review
As far as I know, no other HSA providers have eliminated their fees. So today we’re going to go head to head comparing Lively to Fidelity. I will try to be as unbiased as I can be in my review, but that is going to be a little tricky for two reasons. First, I have a Fidelity account and second I am an affiliate partner with Lively. If you sign up for a Lively account through the links on this page, I make $10. Don’t worry, it doesn’t cost you any extra. We’ll compare them in a handful of ways and you can draw your own conclusions.

**HSA Fees**

This one is almost a straight up draw. They both charge $0 for the typical fees. However, Fidelity has one fee Lively doesn’t—a $25 account closing fee. Most HSAs have this, but Lively doesn’t.

Advantage Lively.

**Investment Options**

Both Fidelity and TD Ameritrade (linked to your Lively HSA) are full-service brokerage options. You can buy anything. TD Ameritrade charges slightly more ($6.95/trade) than Fidelity ($4.95/trade) but both have a robust offering of commission-free ETFs. Fidelity has over 500 ETFs on their list (including all the iShares and Fidelity ones you are likely interested in). TD Ameritrade has over 300 ETFs on their list including
many iShares and SPDR ETFs. Fidelity also has its very low-cost index funds available commission free. Both brokerages will charge you a small commission to buy Vanguard ETFs.

The edge here has to go to Fidelity, but let’s be honest, the edge is very small and could easily be outweighed by other factors.

Cash Options

Sometimes you don’t want all of your HSA money invested. You want it sitting in cash waiting for you to spend it. At Fidelity, the usual place for cash is your CORE FDIC Insured account. I was surprised to learn it actually does pay interest. As of 2/15/19, it pays 0.37% on balances under $5K and 0.75% on balances over $75K. As of the same date, Lively pays 0.25% on < $2,500, 0.35% on $2500-5K, 0.45% on $5-15K, and 0.60% on $15K+. Now I suppose you could buy a money market fund at either brokerage as well. Fidelity offers its Prime MMF for no commission. It pays 2.27%. TD Ameritrade made it very difficult to figure out what their best paying no transaction fee MMF was, but at a minimum you could pay a commission and buy a Fidelity or Vanguard Prime MMF.

Fidelity vs Lively— you really can’t go wrong with either.
The edge here again goes to Fidelity, although again, it is very small.

**Convenience**

This one is probably in the eye of the beholder. In my case, I already had a Fidelity account, so Fidelity is more convenient. If your employer uses Lively or if you already have a TD Ameritrade account, you may find Lively more convenient. Both are good companies with good customer service.

We’ll call this one a draw.

**HSA Features**

Now that we’ve looked at the fees and the investing features, you can see that there is very little difference between these two stalwarts. So let’s take a look at the HSA features. While these don’t matter all that much to me right now, eventually I may actually start using HSA money for, you know, health care expenses or something.

Both companies offer debit cards. They both have useful websites. They both allow you to upload and store receipts from health care purchases. Fidelity offers online bill pay (Lively doesn’t). Fidelity offers checkwriting (Lively doesn’t.) Fidelity has an app (Lively doesn’t.) Fidelity gets rated higher by HSA experts. Lively gets rated higher by actual HSA users.

However, at Fidelity, you can tell that HSAs are just one thing they do. It feels like a brokerage or a mutual fund company. At Lively, it’s all HSA all the time. The company is clearly built from the ground up to do one thing and one thing only—HSAs. And it does a darn good job of it.
The edge here goes to Lively, although if you really want checkwriting or online bill pay capability, that might be enough to sway you to Fidelity.

Which is the Best HSA?

Overall, the differences between these two HSA juggernauts are slight. They are both head and shoulders over all of the other HSAs currently being offered. I don’t think you can really go wrong with either one of them. If you do decide to open an HSA at Lively, I appreciate you going through the links on this page to help support this website.

Open a Lively HSA Today!

What do you think of my review? Which HSA provider do you use and why? Which one do you think is best? What do you like and dislike about the Fidelity and Lively HSAs? Comment below!
This episode is almost entirely full of questions from Speak Pipe. Your questions have been rolling in like crazy lately and it is a lot of fun to get your voices on the podcast. The first mission of the White Coat Investor is to boost financial literacy among high-income professionals. I believe answering your questions on the podcast is really helping meet that mission because many of you have the same questions. In this episode we discuss contributing to a Roth IRA when you are married filing separately, 401(k) loans, when filing as an S Corp makes sense, funding an HSA properly for part-year eligibility, opening a join brokerage account, and more.

Our second mission is to feed my entrepreneurial spirit. That means creating jobs, building something bigger than existed before and making money. This is a for-profit business. But the third mission is to connect you with the good guys in the industry so make sure you check out our recommended pages. I
have taken a great deal of time and effort to vet these recommendations for you for various financial services professionals. You can find the list of professionals above under the recommended tab. So please use them and give us feedback when you do.

Now on to the episode!

Sponsor

You worked hard to get your degree...and you continue to work hard to pay off your student loan debt. Consider a refinance with First Republic Bank and start working on what matters most to you. First Republic can offer you fixed rates on your student loans that are among the lowest in the country, and could potentially save you thousands. First Republic is committed to helping you get out of student loan debt faster, so you can enjoy the benefits of your hard work sooner. Visit First Republic to learn more about First Republic’s low rates and extraordinary service. Member FDIC and Equal Housing Lender.

Quote of the Day

Our quote of the day today comes from Warren Buffet who said,
“If a statue is ever erected to honor the person who has done the most for American investors, the hands down choice should be Jack Bogle.”

I agree with that. He, unfortunately, passed away in January. We are really going to miss him. He has done a lot for the American investor for sure.

Reader and Listener Q & A

Roth IRA Contributions When Married Filing Separately

Keith is married to another resident and both contributed a lump sum of $5,500 each to their Roths last year with money they received from their wedding. They are married filing separately because he has greater than $350,000 in loans and she has none.

He is going for public service loan forgiveness and after running the numbers it made sense to file separately. His question,

“Since I am filing separately, I don’t qualify for direct Roth contributions. So what do you recommend me to do this year since we don’t have a lump sum ready to contribute? Should we, A: save up $12,000 over the year and do a back door like near the end of the year or, B: contribute to our individual IRAs monthly and do backdoor contributions once per month? I’m only asking because option B allows me better coverage of the market trend and smoother contribution rate in that I get an average of the yearly market by contributing monthly and not just have my contribution made at one point in time.”

How much you can contribute to a Roth IRA if you are filing
married, filing separately is limited by your living arrangement and your income, but typically it’s severely limited. If you live with your spouse at any point during the year and you make more than $10,000 per year, you cannot contribute directly to a Roth IRA. If you don’t live together at all that year, the income limit is much higher. But basically, if you’re doing the married filing separate thing in order to minimize your income-driven repayment payments during residency in order to maximize your public service loan forgiveness then you are not going to be able to contribute directly to a Roth IRA.

You’re going to have to do it through the back door just like you will once you’re an attending. A typical attending has enough money to make their entire Roth IRA contribution in one fell swoop. But the issue is with a resident, they don’t have that much income and it’s really hard to come up with six grand all at once as a resident. It is much easier to come up with $300 or $400 a month to put in there and gradually max it out over the course of the year. When I was a resident, that was how we made our Roth IRA contributions. But we were married filing joint so we could just make them directly. I would probably contribute to a traditional IRA as the year went along. But rather than doing the conversion every month after making a contribution, I would probably go ahead and just do the conversion once during the year. Now that probably means you’re going to have some gains on that traditional IRA and that is not the end of the world.

You want to have some gains. That is the purpose of investing as you go along. But you are going to have to pay taxes when you do the conversion. For example, if you get $6,000 in there over the year and by the time you do the Roth conversion at the end of the year at $6,300 you’re going to owe taxes on that $300 when you do the Roth conversion. You have two other alternatives if you don’t want to do that:

1. Every time you make a contribution, just do a Roth
conversion. That’s not a big deal. I mean, you basically just add it all up at the end of the year when you report it. It’ll probably be reported just like you had done it all at once. But there will be a few dollars you made on interest in between the contribution and conversion steps. The problem is you’re going to have to log in and do that conversion every month that you make a contribution.

2. Save up the money in a money market fund on the side or a high yield savings account and make the contribution at the end of the year and then do the conversion the next day. And that would keep things very simple. You would earn whatever you’re getting in the money market fund. But you would miss out on what stocks were earning or bonds were earned if you would have invested the money there.

A couple of other observations on this situation though. First of all, in case it’s not clear, you can’t actually put wedding money into retirement accounts. The only money that can go into retirement accounts is earned income. Now you can spend wedding money on your living expenses rather than spending the money you’re earning in your job. But the bottom line is you cannot contribute more to a retirement account then your earned income in that year.

Also, bear in mind, if your goal is really to minimize your income-driven repayment payments in order to maximize how much you get forgiven through public service loan forgiveness, you might want to consider making tax-deferred contributions to any account that you can, whether that be IRAs or 401ks. The reason why is any money that goes in there basically comes out as a tax deduction and lowers your income. The lower your income, the lower your IDR payments and the more that is left over after 10 years to be forgiven through public service loan forgiveness. Now that contrasts a little bit with my usual advice for residents. I generally tell residents that they
want to invest in Roth accounts, Roth IRAs, Roth 401ks, Roth 403Bs because you’ll never be in such a low tax bracket the rest of your life. But it is possible in some situations, especially when you’re sure you’re going for public service loan forgiveness, that you’d be better off using a tax-deferred account in order to lower those IDR payments and increase how much goes toward public service loan forgiveness. You just have to run the numbers for you and decide whether that’s worth it.

401(k) Loans

What are my thoughts on the advantages and disadvantages of taking a 401(k) loan and thoughts on this idea of the money that you use to pay back the loan being double taxed?

401k loans are not a great idea and the reason why is the money in the 401k should be making money. This is money that you’re supposed to put in there because you want to retire on it. This is not an ATM that you want to raid in order to buy your next Tesla or in order to go on a vacation or really even to cover emergencies. Hopefully, you’ve got a separate emergency fund for that, but if you want to borrow from your 401k you are allowed to do that. The maximum is either 50% of the value of the 401k or $50,000 whichever is less. That’s the most you can borrow. And you have to pay interest to the 401K for that loan. The longest a loan can be is five years.

This used to be a really terrible idea because if you got fired, you had to have that loan paid back within 60 days of separation from the company. People got burned and ended up having to pay the penalty on that loan. If you don’t pay it back within 60 days, not only do you have to pay the taxes on that withdrawal, but you have to pay a 10% penalty on it. They changed that law with the 2018 tax changes. Now instead of only having 60 days, you have until your next tax day to get that money back into the account.
In fact, if you file an extension, you could get even more months to get that money back into the 401k. So that makes it not quite as dumb of an idea as it was before, but it’s still probably a dumb idea. Now, is it better than borrowing from a bank or better than borrowing from somebody else? Well, it might be. It depends on the terms you’re getting from the bank and what the money would have made in the 401k.

One way to look at a 401k loan that you’re paying back is that it’s really kind of a fixed income or a bond in that 401k. Maybe what you should do when you borrow from the 401k is change the asset allocation of the money that’s left so it’s more stock heavy. That way the money you’re paying into the 401k in interest is kind of like the bond portion of the portfolio.

But the question this listener asked is about this double taxation myth. I say myth because it is a myth. People say, “Well if I borrow from my 401k, then I have to pay that money back with after tax money and then I have to pay taxes again on that money when I pull it out of the 401k.” But that’s not the way it works. Any loan is after tax. So the money you borrow out of the 401k is after tax. So the money you put back into the 401k has to be after tax. The money comes out after tax, it goes back in after tax and then when you finally withdrawal it in retirement, it’s pre-tax and you have to pay taxes on it. It only gets taxed once, when you pull it out of the 401k.

Probably the best example I know that explains this is a blog post written way back in 2008 by the Finance Buff, in which he talks about 401k loans. That is certainly worth taking a few minutes to read if you’re really worried about this. The post is called the 401k Loan Double Taxation Myth. If you want to borrow from your 401k, don’t let the double taxation myth be what keeps you from doing it. Let the idea that it is generally a bad idea to be raiding your retirement accounts for your spending needs now keep you from doing it.
Tax Advantage Investment Options for People With 1099 Income in Addition to W-2 Income

Many doctors have side gigs these days which are bringing in some kind of 1099 money. With a separate source of income from your W2 job, you can have a separate retirement account. There are a few rules about it though. You could use a sep IRA. I would generally recommend against that because it screws up your backdoor Roth IRA prorata calculation. Remember, you have to have a $0 balance in all of your traditional IRAs, simple IRAs and Sep IRAs in the year that you do a Roth conversion or that conversion is going to be prorata.

An individual 401k is best in this situation. The $19,000 employee contribution has already been used in the employer’s 401k so all you have left is what we call employer contributions, which is 20% of your net income from self employment. Net income is your profit minus half of the Social Security and Medicare tax that you owe from that income. 20% of that is what can be contributed to a Sep IRA or a solo 401k.

This listener is making $35,000 in 1099 income. So he’d be able to put maybe $7,000 in a solo 401k. That is a nice tax break. That $7,000 won’t be taxed at his marginal tax rate and it is money that will now somewhat be asset protected as well. It is worth doing I think for that amount of self employment income for sure.

Personal Capital’s Market Sector Approach

“I just got off my second phone call with Personal Capital and I just wonder if you would comment on their market sector approach with the 10 stocks per sector and rebalancing versus index investing, pros and cons.”
This is a complicated question. He is asking about an active management technique used by a financial advisor and wants my opinion on it.

In general, I’m not a big fan of active management. I prefer passive investing strategies and if you ask Personal Capital whether this is active or passive, they’re going to call it passive. But in reality, this is kind of a factor based, somewhat active strategy.

They are mostly doing what we call equal weighting. The idea behind equal weighting is rather than taking your stocks and weighting each of them by how much that company is worth, that’s what we call capitalization weighting and what most index funds do, they decided to put equal amounts into each sector and then within each sector equal amounts into each of 10 or 12 stocks in that sector.

So basically they’re creating their own mutual fund, their own kind of passively managed index fund, but it’s equally weighted rather than the capitalization weighted. There’s a few downsides to doing this.

1. It is not terribly tax efficient. So you can run into some issues if you’re doing this in a taxable account. There is lots more buying and selling going on and every time you do that, you have to pay capital gains. Especially if you end up having to pay short term capital gains.

2. It is a lot more complicated. You have to pay somebody to do this. Personal Capital charges 0.89% per year. So if you’re doing this just to try and get some out performance from this technique, it has to be at least 0.89% per year better than just a standard buy the index funds capitalization weighted plan.

The idea here behind most equal weighting plans, and the reason why a lot of times the backtested data shows that they
outperformed is usually attributed to factor investing. That is the idea that over the long-term small stocks and value stocks outperform large stocks and growth stocks. By equally weighting it, more of the money is being put into smaller stocks and value stocks rather than large growth companies like Apple or Walmart. That is why this theory is supposed to work. Now whether it will work and whether it will work better than 0.89% per year after tax going forward is anybody’s guess. This is investing. You make your bets and you take your chances and you get what you get. But whether you want to go and do that, I’ll leave up to you.

Personally, I do not invest that way. But it is not some insane method of investing. As reasonable investment strategies go, it probably falls into the realm of reasonable. It’s just a matter of whether you think it’s better than the default capitalization weighted index funds and whether you’re willing to pay for it.

**Fund an HSA Properly for Part-Year Eligibility**

Daniel was in a job for only half of a year that offers a qualifying high deductible health plan and wanted to know can he fund only half of the HSA?
If you are eligible for an HSA for four months out of a year, you can make 4/12 of the contribution for that year. For 2019 an individual can contribute $3,500 to an HSA. So if Daniel was just an individual without any family members and was eligible for 1/3 of the year, he could contribute 1/3 of $3,500. The limit is $7,000 for a family. That can be you and a child or that can be you and a spouse.

However, there is one interesting twist on this. It is what they call the last month rule. If you have an HSA eligible plan, a high deductible health plan. That is not necessarily one that just has a high deductible, but it is one the government calls a high deductible health plan. If you have it in place on December 1st you can make the whole year’s contribution. The only catch is you have to keep that plan for the next year. You have to be eligible for the entire next year or basically, it goes back to just letting you make one month’s contribution worth to the HSA.

**Filing as an S-Corp**

When does it make sense for a small business to file as an S-corporation?

This is actually a complex question to start with and it just became more complex in the last year. Let me outline a few general principles. And then the truth of the matter is anybody who really wants the answer to this is going to have to run the numbers themselves. They might even have to hire a professional to help them do it.

The general reason why a typical doctor forms an S-corp is in order to split his income into two categories. The first is salary, and the second is distributions. The benefit of putting as much as you can into distributions rather than salary is you don’t have to pay payroll taxes like Social Security and Medicare on the amount that you called distribution.
Now, for a typical doc, you have to pay yourself a reasonable salary anyway, and that’s going to be a high enough number that you’ve maxed out your Social Security taxes. But you still could save some money on Medicare tax. It is 2.9%, with half of that being a tax deduction for the business. So in reality, maybe it’s 2.2% once you take into account that deduction. What is that worth? Well, if you can call $100,000 distribution instead of salary, you just saved $2,200 in Medicare tax.

There is a certain amount of hassle involved with forming an S-corp, a lot of paperwork hassle. At a certain point, if you’re not saving a significant amount of taxes, it’s not worth the hassle. My general rule for that in the past has been $100,000. If you’re not calling at least a $100,000 distribution for a typical doctor, it’s probably not worth forming an S-corp to try to save those Medicare taxes. But if you can call at least $100,000 distribution, then I think it was probably worth doing.

Now bear in mind that the money that you call distribution is not eligible to count toward the amount you need to make to max out your retirement accounts. So if you want to max out an individual 401k, and you’ve already used your employee 401k contribution in a different plan, you have to make a lot of money in order to max that out. I mean, this year the maximum is $56,000. So basically multiply that by five and that is the amount of salary you have to pay yourself. So unless you’re making pretty good money at that 1099 job, it is going to be tough to have enough above and beyond that to justify the hassle of the S-corp.

So as you can tell, it was a complex decision, even a couple of years ago, but it just became more complex with the new 199A law. This is the new tax deduction for self employed individuals. You actually calculate this differently for a sole proprietorship versus an S-corp. If you have an S-corp that deduction can be no larger than 50% of what you’re paying
out as salary. So now there is an additional factor going into this and really I can’t give any sort of general rule of thumb here anymore. You really have to run the numbers yourself and see which way you’re going to come out ahead. Is the additional Medicare tax savings going to make up for the loss of the 199A deduction, et cetera? You just have to run the numbers and you’re probably going to need some help from your accountant unless you’re preparing your own taxes. If you are preparing your own taxes, good luck. You’re going to have to sit down and work your way through this 199A law, which I think all of us are struggling a little bit with this year. I’m planning on writing a blog post on it, but I probably won’t write it until I figure out what my deduction is going to be and work through that tax form myself. I think I’ll understand it a lot better by then. But really that factor has to be taken into account now that we have this new deduction available.

**Invest or Save for Medical School**

“I was recently accepted into medical school. I am currently in my second gap year working at the NIH in Bethesda. I’m trying to decide if I should open and max out a Roth IRA or keep this money to use during medical school. I’ll be taking all loans for tuition and other expenses I will likely take loans from my parents interest free, of course. Is it worth starting retirement savings early or keeping that money in order to lower my loans?”

First, remember any time that a parent gives a loan, the amount of interest forgiven, because you’re required when you give a loan to charge at least a minimum amount of interest, the amount that you’re forgiving is considered a gift. So be aware of the gift tax laws when you do that.

There is no right answer to this question. I Love Roth IRAs. Getting that money in there, get it compounding. It’s tax free
forever. It’s asset protected. Estate planning is facilitated with it. You can leave it to your kids and stretch it out even longer. Roth IRAs are a great thing, but so is minimizing your debt.

Bear in mind when you are in med school or going into medical school, the greatest investment you can make is in yourself and your future earnings ability. And so that’s not a bad thing either to reduce your loans and given what most medical students are borrowing at these days, which is 6 or 7%, that’s essentially a 6 or 7% guaranteed investment.

I think I might pass up a Roth IRA if I had a 6 or 7% guaranteed investment. It’d be a difficult decision, but I think I might just do that if that was the other option. Just stack that money up in cash, use it that first year of med school to reduce how much you borrow and get used to living frugally as much as you can to minimize those loans.

To a lot of medical students, it just feels like Monopoly money. It’s more money than they’ve ever made in their life and they just keep borrowing it and they become debt numb to it and all of a sudden, 15 years later they still owe hundreds of thousands of dollars in student loans. I think that’s a worthy goal to try to lower your loans. That is what I would use the money for in this situation rather than maxing out a Roth IRA. But it’s not like that’s a bad thing to do. It’s not a bad idea and I’ll have to leave it up to you as far as how you’re going to decide.

1035 Exchange for Annuities

“I’m a physician in my mid-50s looking toward retirement soon. I came across your site only about a year ago, but better late than never. Thanks for what you do. I fired my financial advisor and I’m still cleaning up the mess. I had a question about an annuity. I own an annuity from the previous financial advisor. I’ve held it for over eight years and it’s worth about $100,000. I’ve been reading that it might be a
wise move to do a 1035 exchange into an annuity with cheaper fees. Can you comment on this?”

It is hard to know the best thing to do with this annuity without knowing what the basis is. Maybe she can just cash it out and won’t have to pay much in taxes on it cause it never appreciated much. But I suspect she’s got a fair amount of appreciation in there. So it’s probably worth exchanging it to a low cost variable annuity, like those that are offered by Vanguard.

This is called a 1035 exchange. Basically, all the cash value from one goes into the cash value of the other, but you instantly have better investments in there and you have lower fees. So it’s a no brainer to do that. The only other alternative would be if it is worth just cashing out and investing in a taxable account or using the money to pay off debt or using the money to max out retirement accounts, et cetera. But certainly getting out of some old crummy high expense annuity with crappy investments is usually worth doing.

**Joint Brokerage Account**

Can you open a joint taxable brokerage account under both of your names? The answer is yes. You can open an individual one or you can open a joint one.

The downsides to a joint one is that your spouse can clean you out. I mean, it’s joint and you both own the whole thing. And so you have to watch out for that, I suppose. Another downside is in the event of liability, if for some reason that one person is sued and the other one is not, that joint account becomes something that the creditors can grab.

So I suppose it could be a bit of an asset protection technique to have two separate brokerage accounts. In some states, you’re allowed to title your brokerage accounts as
tenants by the entirety, in which case two spouses would not have to split that up to get that same level of asset protection. In fact, it’s even more asset protection because no matter which spouse was sued, the money would not be reachable. So that’s a great way to title a joint brokerage account in the seven or eight states that allow that. But yes you certainly can open a joint brokerage account. That’s how Katie and I have our brokerage account.

The nice thing about that is if one of us died, the other one would just keep on going, nothing would have changed really. Plus we both have access to it. It just seemed the right way to do it to us. We have both of our names on the house. We have both of our names on most of our vehicles. Although I think technically she owns the boat. I guess the day we bought that I felt like that was going to give me some additional asset protection or something. But we have both of our names on our brokerage accounts and our bank accounts as well. And I think that’s what most people do.

**Ending**

Thanks for listening to the podcast. If you have found the podcast helpful please [give us a 5 star rating](#). That helps others find the podcast and assists us in fulfill our mission to help those who wear the white coat get a “fair shake” on Wall Street!

**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.

WCI: Welcome to the White Coat Investor podcast. This is Episode 95. the speak pipe is working. You worked hard to get
your degree and you continue to work hard to pay off your student loan debt. Consider a refinance with First Republic Bank and start working on what matters most to you.

WCI: First Republic could offer you fixed rates on your student loans that are among the lowest in the country and could potentially save you thousands. First Republic is committed to helping you get out of student loan debt faster so you can enjoy the benefits of your hard work sooner. Visit www.firstrepublic.com/whitecoatinvestor to learn more about First Republic’s low rates and extraordinary service. That’s www.Firstrepublic.com/whitecoatinvestor, First Republic Bank, Member FDIC and equal housing lender.

WCI: Our quote of the day today comes from Warren Buffet who said, “If a statue is ever erected to honor the person who has done the most for American investors, the hands down choice should be Jack Bogle.” I agree with that. He really has done a lot. Unfortunately passed away in January. And we’re really gonna miss him. He’s done a lot for the American investor for sure. And you are doing a lot for your patients, so thank you for what you are doing. I don’t know if any of them told you thanks today, but if they didn’t, at least you’ve heard it from one person.

WCI: Make sure you’ve checked out our recommended pages on the White Coat Investor website. I have taken a great deal of time
and effort to come up with these recommendations for you for various financial services professionals.

WCI: In fact, that’s actually one of our three missions at the White Coat Investor. Our first mission is to help you get a fair shake on Wall Street. Our second mission is to feed my entrepreneurial spirit. That means creating jobs, building something bigger than existed before. But also involves making money. This is a for profit business. But the third mission is to connect you with the good guys in the industry.

WCI: And the main way I do that is through the recommendations pages on the website. There you can find student loan refinancing companies, doctor mortgage lenders, independent insurance agents, financial advisors, contract review companies, tax strategists and other financial professionals. These are people that we’ve done some initial vetting on and that have had continual vetting from White Coat investors just like you who have used them.

WCI: Basically, people send me feedback and if the feedback is positive then we keep them on the list. If the feedback is negative, we take them off the list. And so, be sure to use those when you’re searching for a reliable professional and of course send us feedback about your experience.

WCI: Today we are going to do almost entirely questions from Speak Pipe. They’ve been rolling in like crazy lately and it’s a lot of fun to get your voices on the podcast. So that’s almost completely what we’re going to do today. Let’s take our first question from Keith. This is one member of a two resident couple.

Keith: Quick question about my Roth for 2019. my wife and I both contributed a lump sum of $5,500 each to our Roth’s last year. We did so with money that we received from our wedding. This year is a bit trickier. We’re married filing separately because I have greater than $350,000 in loans and she has none.
Keith: We make the same salary and I’m going for public service loan forgiveness. As you mentioned in a prior podcast, I think it makes sense after running the numbers to file separately. But back to the Roth. Since I am filing separately, I don’t qualify for direct Roth contributions. So what do you recommend me to do this year since we don’t have a lump sum ready to contribute? Should we, a, save up $12,000 over the year and do a back door like near the end of the year or, b, contribute to our individual IRAs monthly and do backdoor contributions once per month?

Keith: I’m only asking because option B allows me better coverage of the market trend and smoother contribution rate in that I get an average of the yearly market by contributing monthly and not just have my contribution we made at one point in time. Am I overthinking it? Thanks a lot.

WCI: Basically the question is what to do about that Roth IRA. In case you have no idea what he’s talking about, how much you can contribute to a Roth IRA if you are filing married, filing separately as limited by your living arrangement and your income, but typically it’s severely limited.

WCI: If you live with your spouse at any point during the year and you make more than $10,000 per year, you cannot contribute directly to a Roth IRA. If you don’t live together at all that year, the income limit is much higher. But basically, if you’re doing the married filing separate thing in order to minimize your income driven repayment payments during residency in order to maximize your public service loan forgiveness, forgiveness, then you are not going to be able to contribute directly to a Roth IRA.

WCI: You’re going to have to do it through the back door just like you will once you’re an attending. It’s not that hard to do. It’s no big deal. You can do it. Lots of attendings are doing it all the time, but that’s the way you have to contribute to your backdoor Roth IRA.
A typical attending has enough money to make their entire Roth IRA contribution in one fell swoop. I mean, if you’re making enough money that you have to do it through the back door, you should be making enough that you can do it all at once. It’s only $6,000 for you and $6,000 for your spouse. Even if you’ve got to do your spouse’s next month, you can do it for you this month, et cetera.

But the issue here is with a resident, they don’t have that much income and it’s really hard to come up with six grand all at once as a resident. So it’s much easier to come up with $300 or $400 a month to put in there and gradually max it out over the course of the year. When I was a resident, that was how we made our Roth IRA contributions. Now we’re married filing joint so we could just make them directly. It was no big deal.

But in this case, this couple is filing married filing separately so they can’t do that. They have to do the back door. And so what I would do, I would probably contribute to a traditional IRA as the year went along. But rather than doing the conversion every month after making a contribution, I would probably go ahead and just do the conversion once during the year. Now that probably means you’re going to have some gains on that traditional IRA and that is not the end of the world.

I mean, you want to have some gains. That’s the purpose of investing as you go along. But you are going to have to pay taxes when you do the conversion. For example, if you get $6,000 in there over the year and by the time you do the Roth conversion at the end of the year at $6,300 you’re going to owe taxes on that $300 when you do the Roth conversion. You have two other alternatives if you don’t want to do that.

The first one is every time you make a contribution, just do a Roth conversion. That’s not a big deal. I mean, you basically just add it all up at the end of the year when you
report it. It’ll probably be reported just like you had done it all at once. But there’ll be a buck or two, a few dollars you made on interest in between the contribution and conversion steps. The problem is you’re going to have to log in and do that conversion every month that you make a contribution. That’s not a big deal to you, I guess you can do that.

WCI: The other alternative is just save up the money in a money market fund on the side or a high yield savings account and make the contribution at the end of the year and then do the conversion the next day. And that would keep things very simple, but you would miss out on any earnings that money could have had during the year.

WCI: I guess you don’t miss out on all the earnings. You would earn whatever you’re getting in the money market fund. But you would miss out on what stocks were earning or bonds were earned if you would’ve invested the money there.

WCI: A couple of other observations on this situation. First of all, in case it’s not clear, you can’t actually put wedding money into retirement accounts. The only money that can go into retirement accounts is earned income. Now you can spend wedding money on your living expenses rather than spending the money you’re earning in your job. But the bottom line is you cannot contribute more to a retirement account than your earned income in that year.

WCI: Also, bear in mind if your goal is really to minimize your income driven repayment payments in order to maximize how much you get forgiven through public service loan forgiveness. You might want to consider making tax deferred contributions to any account that you can, whether that be IRAs or 401ks. And the reason why is any money that goes in there basically comes out as a tax deduction and lowers your income.

WCI: The lower your income, the lower your IDR payments and
the more that is left over after 10 years to be forgiven through public service loan forgiveness. Now that contrasts a little bit with my usual advice for residents. I generally tell residents that they want to invest in Roth accounts, Roth IRAs, Roth 401ks, Roth 403Bs because you’ll never be in such a low tax bracket the rest of your life.

WCI: But it’s possible in some situations, especially when you’re sure you’re going public service loan forgiveness, that you’d be better off using a tax deferred account in order to lower those IDR payments and increase how much goes toward public service loan forgiveness. You just have to run the numbers for you and decide whether that’s worth it.

WCI: Okay. Let’s take our next question. This one’s from Mark.

Mark: Hi Jim. My name is Mark and I’m an anesthesiologist in the Pacific Northwest. I had a question for you about taking out a loan against your 401k. I’m wondering if you could speak briefly about the advantages and disadvantages and specifically, I’m curious your thoughts on this idea of the money that you use to pay back the loan being double taxed. There seems to be some differing opinions on the various forums online. Thanks so much. Appreciate what you do.

WCI: Okay. Mark’s asking about loans against 401ks. First of all, let’s talk about 401k loans. 401k loans are not a great idea and the reason why is I want that money in the 401k making money. I mean, this is money that you’re supposed to put in there because you want to retire on it.

WCI: This is not an ATM that you want to raid in order to buy your next Tesla or in order to go on a vacation or really even to cover emergencies. Hopefully, you’ve got a separate emergency fund for that, but if you want to borrow from your 401k you are allowed to do that. The maximum is either 50% of the value of the 401k or $50,000 whichever is less. That’s the most you can borrow. And you have to pay an interest rate to
the 401K for that loan. The longest a loan can be is five years.

WCI: This used to be a really terrible idea because if you got fired, you had to have that loan paid back within 60 days of separation from the company and when you get fired, that’s a time in your life when you probably don’t have a lot of money because you’re not making anything.

WCI: And so it was a particularly difficult time to pay the loan back and that is the reason why a lot of people got burned and ended up having to pay the penalty on that loan. Because if you don’t pay it back within 60 days, not only do you have to pay the taxes on that withdrawal, but you have to pay a 10% penalty on it. They changed that law with the 2018 tax changes. And now instead of only having 60 days, you have until your next tax day. So if you take out a loan in February, you have until April of the next year to get that money back into the account.

WCI: In fact, if you file an extension, you could get even more months to get that money back into the 401k. So that makes it not quite as dumb of an idea as it was before, but it’s still probably a dumb idea. Now, is it better than borrowing from a bank or better than borrowing from somebody else? Well, it might be. It depends on the terms you’re getting from the bank and what the money would have made in the 401k.

WCI: One way to look at a 401k loan that you’re paying back is that it’s really kind of a fixed income or a bond in that 401k. And so maybe what you should do when you borrow from the 401k is change the asset allocation of the money that’s left. So it’s more stock heavy. And that way the money you’re paying into the 401k in interest is kind of like the bond portion of the portfolio.

WCI: But the question that Mark is asking is this double
taxation myth. And I say myth because it is a myth. People say, “Well if I borrow from my 401k, then I got to pay that money back with after tax money and then I got to pay taxes again on that money when I pull it out of the 401k.” But that’s not the way it works.

WCI: You see, any loan is after tax. So the money you borrow out of the 401k is after tax. So the money you put back into the 401k has to be after tax. Right? So the money comes out after tax, it goes back in after tax and then when you finally withdrawal it in retirement, it’s coming out, it’s pre-tax and you have to pay taxes on it. Okay? But it only gets taxed once. It gets taxed when you pull it out of the 401k.

WCI: I hope that helps. If you are still a little bit confused about that, probably the best example I know of it, is a blog post written way back in 2008 by the finance buff, in which he talks about 401k loans. And that’s certainly worth taking a few minutes to read if you’re really worried about this.

WCI: The post is called the 401k Loan Double Taxation Myth. And he has a nice diagram there and a nice explanation of why that’s really not an issue. So if you want to borrow from your 401k, don’t let the double taxation myth be what keeps you from doing it. Let the idea that is just generally kind of a bad idea to be raiding your retirement accounts for your spending needs now is a bad idea. Okay, next question comes from Jesse.

Jesse: Dr Dahle, thank you for what you do. I’m a physician and receive the majority of my income as a W-2 employee, but also receive about 35,000 in 1099 income each year. I’m already maxing out a backdoor Roth IRA for myself and my spouse as well as HSA and my employer 401k. What, if any, are the tax advantage investment options for folks that have 1099 income in addition to the W-2 income?

WCI: Okay, this is a question I get all the time. Jesse made $35,000 in 1099 income, but as his main job as a W-2, right?
He already maxed out his 401k there. So he’s already put his entire $19,000 employee contribution into the 401k plus whatever he could get from the employer.

WCI: The good news is, if you have a separate source of income, a separate company, in this case, the one that Jesse owns himself, that is bringing you income, you can have another retirement account for that. Okay? And there’s a few rules about it. First of all, you could use a sep IRA. I would generally recommend against that. And the reason why in this scenario is because it screws up your backdoor Roth IRA prorata calculation.

WCI: Remember, you’ve got to have a $0 balance in all of your traditional IRAs, simple IRAs and Sep IRAs in the year that you do a Roth conversion or that conversion is going to be prorata.

WCI: And so you generally don’t want to use a sep IRA if you’re doing backdoor Roth IRAs. So what does that leave you? That leaves you an individual 401k and in this situation where the $19,000 employee contribution has already been used in the employer’s 401k, all you have left are what we call employer contributions, which is 20% of your net income from self employment.

WCI: So net income is your profit minus half of the Social Security and Medicare tax that you owe from that income. 20% of that is what can be contributed to a Sep IRA or a solo 401k. It’s actually the same contribution amount in this situation. So in this case, he’s making $35,000. So he’d be able to put what in there? Maybe $7,000. Something like that into an individual 401k. That’s a nice tax break. At $7,000, it won’t be taxed as marginal tax rate and it’s money, that’ll be now somewhat asset protected as well.

WCI: So it’s worth doing I think for that amount of self employment income for sure. Our next question comes from Gary.
Gary: I am a longtime listener of the podcast and I’m a multiple year reader of the book and your blogs. I just got off my second phone call with the personal capital and I just wonder if you would comment on their market sector approach with the 10 stocks per sector and rebalancing whatever and just versus index investing that’s often discussed with you guys and many of the Vanguard folks and whatever. So please comment on their approach if you would, pros and cons. Thanks.

WCI: Okay. This one is a complicated question. He’s asking about an active management technique used by a financial advisor and wants my opinion on it.

WCI: Well, in general, I’m not a big fan of active management. I prefer passive investing strategies and if you ask personal capital whether this is active or passive, they’re going to call it passive. But in reality, this is kind of a factor based, somewhat active strategy.

WCI: And what they are doing is they are mostly doing what we call equal weighting. And the idea behind equal weighting is rather than taking your stocks and weighting each of them by how much that company is worth, that’s what we call capitalization weighting. That’s what most index funds do. They decided to put equal amounts into each sector and then within each sector equal amounts into each of 10 or 12 stocks in that sector.

WCI: So basically they’re creating their own mutual fund, their own kind of passively managed index fund, but it’s equally weighted rather than the capitalization weighted. There’s a few downsides to doing this.

WCI: One of the downsides is that it’s not terribly tax efficient. And so you can run into some issues if you’re doing this in a taxable account. There’s lots more buying and selling going on and every time you do that, you gotta pay capital gains. Especially if you end up having to pay short
term capital gains. So that’s one issue.

WCI: The other issue is it’s a lot more complicated. You’ve got to pay somebody to do this. Personal Capital charges 0.89% per year. And so if you’re doing this just to try and get some out performance from this technique, it’s gotta be a least 0.89% per year better than just a standard by the index funds capitalization weighted plan.

WCI: The idea here behind most equal weighting plans, and the reason why a lot of times the back tested data shows that they outperformed is usually attributed to factor investing. That’s this idea that over the long-term small stocks and value stocks outperform large stocks and growth stocks.

WCI: You see, by equally weighting it, more of the money is being put into smaller stocks and more of the money is being put into value stocks rather than large growth companies like Apple or Walmart. And so that is why this theory is supposed to work. Now whether it will work and whether it will work better than 0.89% per year after tax going forward. Well, that’s anybody’s guess. This is investing. You make your bets and you take your chances and you get what you get. But whether you want to go and do that, I’ll leave up to you.

WCI: Personally I do not invest that way. But it’s not like it’s some insane method of investing. As reasonable investment strategies go, it probably falls into the realm of reasonable. It’s just a matter of whether you think it’s better than the default capitalization weighted index funds and whether you’re willing to pay for it.

WCI: Our next question comes from Daniel.

Daniel: Hey Jim, thanks a lot for the podcast and the White Coat Investors site. I feel like it’s been an immense help to me and my family already. Regarding my question, it’s about how to fund an HSA properly. If I’m in a job for only half of a year that offers a qualifying high deductible health plan,
does that mean I can only fund half of the HSA?

WCI: He’s basically asking how to fund an HSA properly for part year eligibility. So the way this works is if you are eligible for an HSA for four months of a year, you have a high deductible health plan for four months of the year, you can make four out of 4/12 of the contribution for that year.

WCI: For 2019, a single person, an individual can contribute $3,500 to an HSA. So if Daniel was just an individual without any family members, no kids, no spouse, and was eligible for 1/3 of the year, he could contribute 1/3 of $3,500. That limit is $7,000 for a family. And that can be you and a child or that can be you and a spouse.

WCI: However, there is one interesting twist on this and it’s what they call the last month rule. If you have an HSA eligible plan. Okay? A high deductible health plan. That’s not necessarily one that just has a high deductible, but it’s one of the government calls a high deductible health plan. If you have it in place on December 1st you can make the whole year’s contribution. Pretty cool, right?

WCI: You just have it for a month or two at the end of the year and you can do an entire year’s HSA contribution. The only catch is you have to keep that plan for the next year. You have to be eligible for the entire next year or basically it goes back to just letting you make one month’s contribution worth to the HSA. So good question. It’s important for those who aren’t eligible for a high deductible health plan for the entire year. Next question comes from Jeremy.

Jeremy: Hi Jim. Thanks for what you do. I’m hoping you can talk about your experience with the White Coat Investor filing as an S-corp this year. And I’m hoping that you can kind of put your thumb on the point when it makes sense for a small business to file as an S-corporation and when the added complexity just simply does not add any value.
Jeremy: To give you a background, I live in Massachusetts and on the Massachusetts form you must have a balance sheet. So on the federal, you have to have a Schedule L and M-1 regardless of income. We have a corporate effective tax rate of 9.5% with a minimum tax of $456. I’d love to hear your thoughts. Thank you.

WCI: Okay, so Jeremy is asking when does an S-corp makes sense? All right. This is actually a complex question to start with and it just became more complex in the last year. So let me outline a few general principles. And then the truth of the matter is anybody who really wants the answer to this, is going to have to run the numbers themselves. And they might even have to hire a professional to help them do it.

WCI: The general reason why a typical doctor forms an S-corp is in order to split his income into two categories. The first is salary, and the second is distributions. And the benefit of putting as much as you can into distributions rather than salary is you don’t have to pay payroll taxes like Social Security and Medicare on the amount that you called distribution.

WCI: Now, for a typical doc, you’ve got to pay yourself a reasonable salary anyway, and that’s going to be a high enough number that you’ve maxed out your Social Security taxes anyway.

WCI: But it might not be, but you still could save some money on Medicare tax. Well, how much has medicare tax? Well, it’s 2.9%, with half of that being a tax deduction for the business. So in reality, maybe it’s 2.2% once you take into account that deduction. And so, what is that worth? Well, if you can call $100,000 distribution instead of salary, you just saved $2,200 in Medicare tax.

WCI: And so there’s a certain amount of hassle involved with forming an S-corp, right? There’s ... he mentioned some of the
tax returns and I’m familiar with them cause I’ve been filling out these tax returns the last couple of years, but there’s a bit of hassle there and you’ve got to send in all this money and you got to file W-2’s and there’s a lot of paperwork hassle. At a certain point, if you’re not saving a significant amount of taxes, it’s not worth the hassle.

WCI: And my general rule for that in the past has been $100,000. If you’re not calling at least a $100,000 distribution for a typical doctor it’s probably not worth forming an S-corp to try to save those Medicare taxes. But if you can call at least $100,000 distribution, then I think it was probably worth doing.

WCI: Now bear in mind that the money that you call distribution is not eligible to count toward the amount you need to make to max out your retirement accounts. So if you want to max out a 401k, an individual 401k, and you’ve already used your employee 401k somewhere, employee 401k contribution in a different plan, you have to make a lot of money in order to max that out. I mean, this year the maximum is $56,000. So basically multiply that by five and that’s gotta be the amount of salary you have to pay yourself.

WCI: And so unless you’re making pretty good money at that 1099 job, it’s going to be tough to have enough above and beyond that to justify the hassle of the S-corp.

WCI: Okay. So as you can tell, it was a complex decision, even a couple of years ago, but it just became more complex with the new 199A law. Okay? This is the new tax deduction for self employed individuals. And so you actually calculate this differently for a sole proprietorship versus an S-corp.

WCI: And if you have an S-corp, basically it comes down to also a factor that applies that, that deduction can be no larger than 50% of what you’re paying out as salary. And so now there’s an additional factor going into this and really I
can’t give any sort of general rule of thumb here anymore. You really have to run the numbers yourself and see which way you’re going to come out ahead.

WCI: Is the additional Medicare tax savings going to make up for the loss of the 199A deduction, et cetera? You just have to run the numbers and you’re probably gonna need some help from your accountant unless you’re preparing your own taxes. And if you are preparing your own taxes, good luck. You’re going to have to sit down and work your way through this 199A law, which I think all of us are struggling a little bit with this year.

WCI: I’m planning on a blog post on it, but I probably won’t write it until I figure out what my deduction is going to be and work through that tax form myself. I think I’ll understand it a lot better by then. But really that factor has to be taken into account now that we have this new deduction available. All right? Well, that was a lot of questions from guys.

WCI: I need some questions from women here. Let’s go over to the email box here for a second and I’ve got a question from a woman who says, “I was recently accepted into medical school. I’m very excited to get the Texas in-state tuition.” I would be too. Texas is a great place to go to medical school. “I am currently my second gap year working at the NIH in Bethesda. I’m trying to decide if I should open and max out a Roth IRA or keep this money to use during medical school. I’ll be taking all loans for tuition and other expenses I will likely take loans from my parents interest free, of course.”

WCI: That’s nice. Appreciate that. Remember by the way, anytime that a parents give loans that the amount of interest is forgiven, because you’re required when you give a loan to charge at least a minimum amount of interest, the amount that you’re forgiving is considered a gift. So be aware of the gift tax laws when you do that.
WCI: But she says, “I’ll still have to pay that back to my parents. Is it worth starting retirement savings early or keeping that money in order to lower my loans?”

WCI: There’s no right answer to this question. I Love Roth IRAs, right? Getting that money in there, get it compounding. It’s tax free forever. It’s asset protected. The estate planning is facilitated with it. You can leave it to your kids and stretch it out even longer. Roth IRAs are a great thing, but so is minimizing your debt.

WCI: Bear in mind when you are in med school or going into medical school, the greatest investment you can make is in yourself and your future earnings ability. And so that’s not a bad thing either to reduce your loans and given what most medical students are borrowing at these days, which is 6 or 7%, that’s essentially a 6 or 7% guaranteed investment.

WCI: And I think I might pass up a Roth IRA if I had a 6 or 7% guaranteed investment. It’d be a difficult decision, but I think I might just do that if that was the other option. And just stack that money up in cash, use it that first year of med school to reduce how much you borrow and get used to living frugally as much as you can to minimize those loans.

WCI: I tell you what, for a lot of medical students, it just feels like Monopoly money. It’s more money than they’ve ever made in their life and they just keep borrowing it and they become debt numb to it and all of a sudden, 15 years later they still owe hundreds of thousands of dollars in student loans. So I think that’s a worthy goal to try to lower your loans. I think that’s probably what I would use the money for in this situation rather than maxing out a Roth IRA.

WCI: But it’s not like that’s a bad thing to do. It’s not a bad idea and I’ll have to leave it up to you as far as how you’re going to decide. All right? While I was combing through my email box, I actually got two more questions in on the
Speak Pipe. This is great.

WCI: If you want to leave Speak Pipe questions, we’re really enjoying these. Just go to speakpipe.com/whitecoatinvestor and we’ll get your voice on the podcast. But these two more that we’re going to do in the podcast are both from women. So here’s the first one.

Juliana: I’m a physician in my mid-50s looking toward retirement soon. I came across your site only about a year ago, but better late than never. Thanks for what you do. I fired my financial advisor and I’m still cleaning up the mess. I had a question about an annuity. I own an annuity from the previous financial advisor.

Juliana: I’ve held it for over eight years and it’s worth about $100,000. I’ve been reading that it might be a wise move to do a 1035 exchange into an annuity with cheaper fees. Can you comment on this? Thanks a lot.

WCI: All right, so Juliana is asking what to do with this annuity. It sounds like she was sold some crappy annuity from some crappy financial advisor and has been stuck with it for a long time, but she’s got a hundred grand in it now and she wants to know what to do with it.

WCI: Well, the best thing to do with it at this point. I mean, it’s hard to know without knowing what the basis is. I mean, maybe she can just cash it out and won’t have to pay much in taxes on it cause it never appreciated much. But I suspect she’s got a fair amount of appreciation in there. So it’s probably worth exchanging it to a low cost variable annuity, like those that are offered by Vanguard.

WCI: This is called a 1035 exchange. And basically all the cash value from one goes into the cash value of the other, but you basically instantly have better investments in there and you have lower fees. So it’s a no brainer to do that. The only other alternative would be is it worth just cashing out and
investing in a taxable account or using the money to pay off debt or using the money to max out retirement accounts, et cetera.

WCI: But certainly getting out of some old crummy high expense annuity with crappy investments is usually worth doing. All right, our final question is from Nicole.

Nicole: Hi Jim. My husband and I are finally maxing out all of our tax advantaged accounts this year and going to be opening brokerage accounts. I’m wondering if we can open a joint to taxable brokerage account under both of our names or if we need individual ones. Thanks for everything that you do.

WCI: So this one’s pretty easy. This is a simple question. Can we open a joint brokerage account? And the answer is yes. You can open an individual one, you can open a joint one, you can do whatever you like.

WCI: The downsides to a joint one is that your spouse can clean you out. I mean, it’s joint and you both own the whole thing. And so you’ve gotta watch out for that, I suppose. Another downside I suppose is in the event of liability, if for some reason that one person is sued and the other one is not, that joint account becomes something that the creditors can grab.

WCI: So I suppose it could be a bit of an asset protection technique to put ... to have two separate a brokerage accounts. In some states, you’re allowed to title your brokerage accounts as tenants by the entirety, in which case two spouses would not have to split that up to get that same level of asset protection.

WCI: In fact, it’s even more asset protection because no matter which spouse was sued, the money would not be reachable. So that’s a great way to title a joint brokerage account in the, I dunno, I think it’s seven or eight states that allow that. But yeah, you certainly can open a joint
brokerage account. That’s how Katie and I have our brokerage account, it is joint.

WCI: And so the nice thing about that is if one of us died, the other one would just keep on going, nothing would have changed really. Plus we both have access to it. It just seemed the right way to do it to us. We have both of our names on the house. We have both of our names on most of our vehicles. Although I think technically she owns the boat. I guess the day we bought that I felt like that was going to give me some additional asset protection or something. But we have both of our names on our brokerage accounts and our bank accounts as well. And I think that’s what most people do.

WCI: All right. Be sure to check out our recommendations page. We have a recommendation for just about every financial professional you want to get in touch with.

WCI: This episode was sponsored by First Republic Bank. You worked hard to get your degree and you continue to work hard to pay off your student loan debt. Consider a refinance with First Republic Bank. And start working on what matters most to you. First Republic can offer you fixed rates on your student loans that are among the lowest in the country and could potentially save you thousands.

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WCI: Head up, shoulders back. You’ve got this and we can help. We’ll see you next time on the White Coat Investor podcast. Disclaimer: My dad, your host, Dr Dahle, is a practicing emergency physician, blogger, author, and podcaster. He’s not
The Abundance Mindset vs Scarcity Mindset for Physicians

[Editor’s Note: This is a republished post from Passive Income MD and is all about how changing from a scarcity mindset to a mindset of abundance can offer each of us new levels of wealth, opportunity, and happiness. Enjoy!]

Have you ever noticed how two people can go through a similar journey (like residency) but have radically different attitudes and experiences by the end of it?

As the saying goes, you may not be able to control what happens to you, but you can control how you respond to it. In a way, you’re responsible for how things in your life affect you internally.

I’ve learned that mindset is everything in life. It can truly change the way you handle stressful situations, how you learn and create success, and even how you find happiness.
Many years ago, Stephen Covey wrote about this concept in his classic work, *The 7 Habits of Highly Effective People*. Covey says that most people have one of two mindsets; they see life through the lens of either scarcity or abundance.

I read Covey’s book years ago, and since that time, I’ve come to realize how spot on he really was.

So, let’s dig a little deeper into these mindsets, and how they truly can impact our lives.

### The Scarcity Mindset

The scarcity mindset is what Covey calls the “zero-sum paradigm of life.” Basically, life is like a pie, and there’s only so much to go around. Some get bigger slices, which leaves less for others.

This type of thinking manifests itself in various ways. People with the scarcity mindset often have the following thoughts:

- Since there is only so much to go around, they try to hoard resources.
- Competition is more important than collaboration.
- Any sharing of knowledge will only help their competition beat them.
- Others should be helped, but only if they receive something of equal or greater value in return.
They’re worried that people are always after them, seeking to tear down their accomplishments.

- Fear of risk often paralyzes them from making big moves and decisions.
- They truly fear change.
- They may feel deep anxiety about budgeting and saving, taking **frugality to the level of deprivation**.

Needless to say, this mindset is, at its core, all about serving one’s own interests. It’s all about getting a bigger slice of the pie, no matter the cost to one’s peace of mind.

The Abundance Mindset

In stark contrast, Covey says that those who see life through an “abundance” mindset feel that there is not only enough of the pie to go around, everyone can have seconds or even thirds.

This type of thinking manifests in the following ways:

- They’re generous with their time, knowledge, and support.
- They freely give more of their finances to worthy causes.
- They gain the trust of others and develop valuable...
relationships.
- Risk is seen as a necessary part of growth as well as change.
- They are adaptable and optimistic.

People with this mindset are generally happier. Helping others is seen as the way to get ahead, not only for themselves but for their peers as well.

**Physicians and Their Mindset**

Well, I believe that we weren’t really trained to go through life with an abundance mentality. Whether or not you agree, it’s clear that it took a lot of competition to get where we are.

If your school was graded on a curve like mine, you know there were only so many “A” grades to be given out. There were then only so many spots in medical school, in residency, and there were only so many jobs. It’s a cutthroat world, and we knew we had to be the best to beat out everyone else.

My own college had the reputation of being an extremely cutthroat school, and at times, I definitely felt that people were trying to put you down to lift themselves up.

So when it comes to financial freedom, I can understand why physicians might feel the same way. The journey to financial independence must be similar to the one that brought us to be physicians, and we think we have to outthink and compete against everyone else.

However, I believe that nothing could be further from the truth.

**The Abundance Mindset and Financial**
I believe all physicians have the opportunity to reach financial freedom. Sure, some of our paths might be a little bit more difficult, as some have higher student loan debt, lower paying specialty, or live in higher cost of living areas. But with smart investments and by creating businesses, I think we can reach it regardless of these obstacles.

However, that does involve taking on some level of risk. It takes venturing beyond what’s safe and thinking that there’s hope out there. Most importantly, when it comes to risk, you have to be willing to take it.

Reaching financial freedom also takes learning from people and collaborating. It takes being vulnerable and asking people for help. (These are some of the reasons I created the group, Passive Income Docs!) These are pillars of the abundance mindset, and those who have it are always willing to share how they reached their own levels of success—not because there’s always some immediate gain for themselves, but because they know that what goes around comes around.

Collaboration is the key. In this game of financial freedom, “the rising tide lifts all boats” as they say. People can help each other by sharing knowledge and resources and in the end, everyone wins.

Again, this concept is foreign to a lot of physicians. Despite the competitive nature of our profession, it’s important to realize that the more we can share information, support one another, and educate one another, the faster we can all get where we want to be.
The road to becoming a physician isn’t easy, but it is fairly clear-cut. But there is no one path to financial freedom. There are twists and turns, and adaptability and resourcefulness are key attributes of successful people. Having that abundance mindset helps you stay open to opportunities, and you’re better able to spot them when you come across them.

**How Do You Change Your Mindset from Scarcity to Abundance?**

If you find yourself adopting the scarcity mindset, or wondering if it applies to you, the initial step to progress is to recognize the signs. Take a look at that list of manifestations a few paragraphs up. Do you fall more in the scarcity or abundance mindset?

If it’s the scarcity mindset, realize that change is necessary, and, most crucially, make a determination to change. Here are some practical steps to make it happen.

First, practice **gratitude** and generosity. This can be in the form of money, time, and/or knowledge. Try to give to others and you’ll realize you have **more than enough** and are quite fortunate in life. That’s a huge step in finding the abundance mindset. This method has worked wonders for me.
Second, share your experiences and create a community with like-minded people that share that mindset and can offer support. Be active members of Facebook groups (like our group, Passive Income Docs or one of the ones I recommend), or go to meetups with colleagues and friends. Talk with people who are also trying to better themselves and others.

Third, push yourself to try new experiences and educate yourself on other methods of building the life that you want. Broaden your horizons, and you’ll see how much there is to go around.

Fourth and finally, focus on the end goal and realize that failure will only help you achieve your goals. As Edison put it while trying to perfect the light bulb, “I have not failed. I’ve just found 10,000 ways that won’t work.” Realize that there is hope and there are great possibilities. Look to others for inspiration, learn from your mistakes, and move on.

As physicians trying to achieve financial freedom, having a mindset of abundance makes all the difference. it’s very important to realize that it will not only help you reach your goals, but it will help you enjoy life far more when you do get there.

Do you have a scarcity or abundance mindset?

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Being a Military Doctor – Podcast #92
When I recorded the introduction in the podcast for this episode’s guest it was pretty lengthy. But when you have done a lot, you get a long introduction. And Commander Joel Schofer has done a lot. He is an MD, board certified emergency physician, with an MBA, and currently serves as the associate director for healthcare business and has served for the last three years as the Navy Emergency Medicine specialty leader. This is a rather prestigious position. You are basically in charge of all the other emergency docs in that service. I think all those credentials are pretty important when we get into the specific subjects in this episode. Joel is also a prolific blogger. He blogged previously at Military Millions but has moved on to mccareer.org where he focuses on careers for military and medical core physicians. Basically if you have any questions about military medicine, especially in the Navy, Dr. Schofer is the man with the answers. I’ve been out of the military for several years. It is nice to have someone watching me and correcting me when I make the inevitable errors about military medicine. Dr. Schofer has been doing that for me over the last year or two. Every time I screw something up with the military, he shoots me an email and I’m able to correct it, so I appreciate that. We delve into the best way to join the military as a physician, the military match for residency, the new retirement system, the best and worst things about practicing medicine in the
military, and more. But remember that the views Dr. Schofer expresses in this podcast are his own and don’t necessarily reflect the official policy or position of the Department of the Navy, Department of Defense or the United States government. Now with that disclaimer out of the way, let’s get into the episode!

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Quote of the Day

Our quote of the day today is from Morgan Housel who said,

“The simple idea that most people wake up in the morning trying to make things a little better and more productive than wake up looking to cause trouble is the foundation of optimism. It’s not complicated. It’s not guaranteed, either. It’s just the most reasonable bet for most people.”
I agree with that. We have a very optimistic person on the podcast today.

Military Doctors

Joining the Military

What should be the primary considerations for a student or a doctor that is considering becoming a military doctor?

We both definitely think it shouldn’t be finances, even with the cost of medical school nowadays. Only join the military if you want to be in the military. If you attend USUHS, the Uniformed Services University of the Health Sciences, the military medical school, you’re talking about a seven year commitment. That can be a long time. Most people who go there know they are going to be sticking around for 20.

The HSPS scholarship, which both Dr. Schofer and I used, has a commitment depending on how long your training is, usually three-five years. I went to the University of Utah. Tuition was 10 grand the year I started. Everyone came out with loans at 1%. Then I ended up in a relatively high paying specialty, and so the numbers didn’t work out well for me joining the military. That certainly wasn’t the primary motivation of doing it. I had a lot of great experiences I couldn’t have anywhere else while I was in the military, but number-wise, I definitely came out behind having the military pay for my medical school. Dr. Schofer and his wife went to MCP Hahnemann, which was one of the most expensive medical schools in the country. They probably had $500,000 of debt they avoided by both getting the Navy scholarship so it worked out well for his wife and him.

We discuss reasons people might go into the military:

1. Money. I’m sure that’s at least partially motivating to some people.
2. If you want to see the world on the taxpayer’s dollar.
3. You have family history of military service.

We discuss the different ways into the military for a physician:

1. Attending the Uniformed Services School.
2. Go through HPSP, Health Profession Scholarship Program where they basically pay for medical school.
3. Go through the FAP program where you join as a resident or even come in as an attending and often get some sort of a signing bonus.

I asked Joel what he thought is the best way in and what are the pluses and minuses of each of the various methods?

**USUHS**

“Unless you’re really committed to a career in the military, USUHS with its seven-year obligation, might not be the best. You’re wearing a uniform, going to a military medical school, and getting paid. Your time in medical school will count toward retirement at the end. So if you hit 20 and then you retire, you get credit for 24.”

**HSPS**

“When it comes to HPSP, you’re getting a stipend and a signing bonus. You’re not getting full active duty instant pay like somebody at USUHS, but you’re in a civilian med school and you’re not wearing a uniform. Your commitment is less. Usually, three or four years depending on how many years you get the scholarship for.”

**FAP**

“The FAP program is interesting, because if you do HPSP or USUHS, you could train in the military. That military time,
if you’re training full time in service, will count toward retirement. It counts toward your 20 years you need to get to. If you do the FAP program, you’re in a civilian residency already. That time is not going to count.

Let’s say you do a three-year emergency medicine residency. You sign up for the FAP program and you get that extra pay while you’re a resident. You’re going to come on active duty. You’re going to have only three years you owe and you’re going to hit your decision point that you can get out with only three years toward a 20 year military commitment.

I did HPSP and because of my residency and my fellowship I hit that decision point at 10, so I was already halfway toward a 20-year retirement. If I had done USUHS, I would have been so close to 20 before I even had that decision to get out.

I think it just depends on your commitment to the military. You want to get your money and get your experience and you’re leaning toward getting out. The FAP program would be great. You think you’re in for 20 years for sure? Then USUHS would be great and the HPSP is probably a good compromise between those two extremes.”

Joining the Military as an Attending

Is it easy to join the military as an attending?

“Honestly, it’s a hard question to answer, because people will contact me and they say, “Hey, I’m an ER doctor. I want to come into the Navy.” You’d think that would be easy, but you have to pass the physical standards. You have to contact your recruiter. It’s just kind of a black hole. I would direct people to the recruiters. It was very rare that I ever heard from anybody again. The ratio of people that are interested to the people that actually wind up showing up one day, it definitely is not a high percentage of success
My take on these different routes into the military is that USUHS seems to be the best route for somebody that wants to make a whole career of it. Not only do you get that extra payment at the end, but also you are in the military from day one and getting paid like it. HPSP seems like a better way for somebody who wants a taste of the military. They want to be in it for four years at the beginning of their career, have an adventure and then go on and have a civilian career. Then FAP seemed like it was the best way to get in if you were interested in avoiding going through the military match because you sign on with the military after the match is done. Then part of it might just be when they decide they want to go into the military. If it’s too late to apply to USUHS, you can’t go there. If you’re already out of med school, you can’t do HPSP, so FAP is the only option.

Military Match

What’s the secret to navigating the military match successfully?

You can read a post Joel wrote giving tips to matching in the military. He has been involved in four military matches on the Navy side of things. You are in a much smaller applicant pool and it can be harder to match. Number one is you have to be realistic about your chances of matching in the specialty you’re trying to match in. It’s actually harder to match in Navy emergency medicine than it is to match in general emergency medicine, even though general emergency medicine is extremely competitive. The biggest downside to the military match is that if you wind up not getting what you want, the military is going to find a job for you. You could wind up being a transitional intern or an internal medicine intern or any kind of intern even if it isn’t the one you wanted, because you’re on active duty and you need a job. That
uncertainty can definitely frustrate some people.

I remember the year I applied in the Air Force. There were about 50 of us that want to do emergency medicine. I think there were about 15 active duty spots and about 10 deferrals into the civilian match. The match rate that year was literally 50% into emergency medicine in the Air Force. I think emergency medicine that year was like 93% in the civilian match. People that wanted to do emergency medicine got to do it. It was dramatically more competitive in the military.

On the flip side, I know of at least one doctor who wanted to be a dermatologist. He had spent some time as a family practice doctor and then came back and applied to do dermatology and it was dramatically easier to match into dermatology in the military that year than it was in the civilian world. So it goes both ways, depending on how many applicants there are. In some of the specialties where on the outside they would be really competitive, there might not be a whole lot of training programs in the military and then one year there might just not be a whole lot of applicants, so you may luck out.

**Training in the Military**

Do you have any tips for maximizing the quality of your training if you have a military commitment?

“I personally think that the military programs across the board are excellent, but I’m also probably biased because I trained in them. There was an article that recently came out this week that showed that they were looking at general surgery programs at an Army hospital which was ranked number one of more than 200 programs in general surgery of the percentage of their graduates that passed their boards the first time around. Something like 97% or 98% first-time pass rate. The article is saying if you’re in the 89th percentile
on your in-service training exam, you’re at the bottom of your class.

In the military you’re going to be surrounded by people that are a little more regimented, oftentimes older and more mature because a lot of people in the Navy at least wind up doing general medical officer or GMO, flight surgery or undersea medical officer tour, so they’re a little older. It is just a more motivated bunch. You’re still going to see the sick patients. You’re still going to get all the training you need, all the programs are accredited, so it’s still going to get you to the same place, board-certified in whatever specialty you want to be.

Compared to the civilian, there’s also some experiences in the civilian world you’re just not going to get in the military. For emergency physicians, if you want to crack chests every day, it is not happening here. It will happen in 40% or 50% of your out service rotations that you’re doing in civilian hospitals. You have to do outside rotations to get the mix and the patient acuity that you need. If you want to crack chests every day you’re going to want to do a civilian deferment. I think the academic programs and the teaching in the military programs are excellent. I did a fellowship at a very highly regarded civilian residency program, and I just think the education and the quality of the residents is superb in the military when compared to the civilian world.”

I have a bias as well as a faculty member for a military residency program. The residents were always very sharp academically. There is a big focus for sure on doing well on board exams. They like being able to say, “Hey, we’re number one of all programs.” I think there’s a little bit of a chip on the shoulder of most military residency programs. The problem was that they were taking care of a very healthy
population. They don’t have a lot of terrible diseases, and so in a specialty like general surgery or emergency medicine or critical care, the pathology in the actual military medical center was going to be lower than what it might be in a comparable civilian center.

I think the way most programs deal with that issue, lower numbers of procedures and a little bit less pathology, is by doing a lot of rotations outside the military. Is that adequate to make up for that loss of pathology and procedures?

Dr. Schofer thinks so.

“We all have to meet the ACGME requirements whether you’re a military program or civilian. I thought it was great to go out into a civilian hospital and take care of the sickest of the sick for two or three months and then come back and take a little breath and refocus on academics and then jump back into the fray a couple months later. I really think if you gave me one medical student and I had to make them the best physician in any specialty and I had a choice, civilian or military, I’d go military because I just think they’re going to be better.”

**Getting the Assignment You Want**

Do you have any tips for a doc coming out of residency to get the assignment they want?
I will tell my story when I came out of residency. It was interesting. I was in a civilian residency. I had gotten a civilian deferment out of the match. I had no military experience whatsoever. I find out from a letter that I need to submit some kind of a rank list of all the places that Air Force emergency doctors can be sent. My wife and I stewed about it and we went back and forth, and we prayed about it and we came up with this list in the order of where we’d like to go. A couple of weeks later after we sent that in, I get a call saying, “Hey, we’ve got you penciled in for Keesler.” Keesler was number 15 on my list. My thoughts were why did I make the rank list? What’s the point of making it if I just go to number 15 on it? In the end, a spot opened up at Langley and we jumped at that opportunity. It actually worked out fine because I worked most of my shifts with the Navy which was pretty fun.

Joel, who as a detailer who assigned all sort of specialties and then as specialty leader assigning people for five years, had this response:

“I think across the board, you have to realize when you’re a new grad out of residency, like you experienced, you’re at the bottom of the barrel. People who are overseas and want to come back, people who have gone operational, deployed, people who are senior to you. It takes a little while for you to rise up to the level where you are going to get the pick of the litter.”

I would also encourage people to always just be honest. The
military is full of honest people and we all talk. There are people who would try to play their specialty leader off of me when I was the detailer. Play dad against mom. Well, dad and mom talk. The military is about people, so you want to treat people nicely and don’t play games.

When you’re junior, most of the time, you’re going to get what no one else wants. But to be honest with you now, at least in the Navy Emergency Medicine, we do a match. We use the ACGME matching algorithm and it is literally an algorithm. It’s not really about seniority. All the places that have spots submit a rank list and then you submit your rank list just like you did and it gets run through the algorithm, and that’s where you go. We found a fairly transparent and fair way to do it, at least in my specialty, that people seem to like.”

Happy Doctors in the Military

What percentage of doctors are happy in the military?

Joel thought there was probably a third who can’t wait to get out, a third pretty neutral, and a third that love it. The most unhappy people are the people that pick a service that doesn’t align with what they like. They don’t like to camp and they join the Army. They can’t swim and they join the Navy. Or they sign up for the military just purely for the money. They don’t want anything to do with the military.

In my experience, I think the Air Force attracted a higher percentage of doctors who did it for the money. I found as a general rule, having worked basically in the Navy and in the Air Force that the Navy doctors were happier with their choice to join the military. I never really understood exactly why that was.

I think it was not necessarily that the Air Force was treating people particularly badly while they were in. I think it was
that the people selected themselves that way and people who are more likely to be happy as military docs join the Navy or the Army and not the Air Force, but I don’t know that my experience is generalizable.

I hear lots of discussions and worrying among medical students and residents about GMO tours so I asked Dr. Schofer about that. He said,

“I’ve been in the Navy 17 and a half years and I think for 17 and a half years, they’ve been getting rid of the GMO tour. People probably don’t even know what it is, but you basically do your internship and then you go spend some time as a GP. You’re basically a primary care physician for a bunch of healthy people on a ship or with the Marines in whatever setting. Sometimes you’re even in a clinic. You get a little extra pay. You definitely get a lot of experience. You oftentimes feel like you’re over your head because you’ve only had internship. Very rarely do people complain about it once they get into it. You get the pay. Their life is pretty good. They get experience. They get a little bonus when they come back and apply to the GME match. The military match rewards those who have gone out and done their time. It’s very rare that people complain about it. There are a lot of people that just want to do their straight through training and then, like I said, the Navy is talking about getting rid of that forever, because the Army and the Air Force don’t do a lot of this. We’re a little unique in the Navy with respect to that.”

Best and Worst about Being a Military Doctor

Dr. Schofer said the best part is being able to serve his country and take care of some of the best patients in the world. Although oftentimes they are not as sick as some of us would like, they are part of the 1% or less that have worn the
uniform, and it’s an honor to take care of them.

The worst part? Online training. The solution to every problem in the military is to create online training and make you do it. You’re a board certified emergency physician and you have to do online training about the flu shot.

Disability Insurance for a Military Doctor

Dr. Schofer wrote a guest post about disability insurance for military physicians. The bottom line is you have to realize that if you’re a highly paid professional in the military, the military’s disability insurance coverage if something would happen to you, is not going to compensate you like you’re a physician.

It is very hard to get disability insurance as an active duty physician. Insurance companies don’t want to insure people that go to war. He was able to get supplemental coverage with the American Medical Association group coverage. They will give you up to $2500 extra disability insurance a month.

If you really want to get into an individual policy, the best you can get is Lloyds of London, which is pretty expensive, or Mass Mutual. He was able to get an extra $6000 of coverage a month if he was disabled on top of the military. Plus if after five years he was still 100% disabled, he got a lump sum payment of $500,000. Better than what he would have gotten in the Navy if he was disabled and couldn’t practice. Basically, of the big five or six disability insurance companies, you get one of them as a military doctor.

Blended Retirement System in the Military

Starting in 2019 the military retirement system changed. Under
the old system, you had to stay in 20 years or you received no Department of Defense contribution to your retirement. All you received was what money you had put into the thrift savings plan, the military’s 401(k) equivalent.

Under the blended retirement system, you will get a DOD match. If you contribute 5%, they’ll match up to 5%. That way, if people leave, they actually leave with some DOD money in their retirement account that they can take with them. It is a much more modern system. But if you do the blended retirement system and you stay in 20 years, your pension gets cut by 20%, because the multiplier under the old system is they take the average of your top three years of your highest pay, and then they multiply it by two and a half percent times the number of years you’ve stayed in.

If you stay in 20 times two and a half, you basically get 50% of your average highest three years of pay. Under the BRS, instead of the multiplier being two and a half percent, it gets cut by 20%, so it is two. You can get 40%. You still get a pension, but all along the way, you got a match of up to 5%.

Among officers, 57% get out before 20 years. The percentage among enlisted is less than 20% stay into 20. The overwhelming majority of people under the old system got nothing toward retirement. It was just whatever they saved. Now, as of 2019, there’s no decision to make any more. You’re just in this new program. But for the last few years, people could choose the new BRS or the old one. But if you signed an HPSP scholarship under the old system and you’re just not on active duty yet because you haven’t graduated from medical school, what he has been told is that anybody in that situation, once they come on active duty even if it’s in 2019 or 2020, they’re going to have a one-time chance to either go with the old system or come under the new BRS. So I asked Joel which you should choose.

He said,
“I think if you plan to make a career out of it, there’s a ton of people that plan to make a career out of it that didn’t. I think if you know you’re just going to do your time and you’re just going to get out, you’ve got to take the blended retirement, because that’s the only way you’re going to leave with any DOD money toward your retirement accounts. If you’re not sure, like we just talked about, the odds say you’re not going to do it, so you should go BRS. If you’re 100% positive you’re going to stay 20 years, my personal opinion is you should stick with the traditional if you have that choice.”

I certainly would have had more money if I had been under the BRS rather than the old system. I imagine if it’s 57% for a typical officer, it’s got to be higher than that for doctors. I think most doctors probably get out. Maybe not so much in the Navy, but certainly in the Air Force. It is a higher percentage than that.

We discussed the reserve pension. A lot of times, a doctor decides, “I’m going to get out of active duty, but I’m going to go on reserve so that I can get this different pension.” It’s not the same pension, but it’s still an inflation-adjusted government pension that starts at age 60. Joel thought that was a great option, not necessarily just because of the pension but because of Tricare. He felt like if you get out and you can work earning your normal wage as a civilian physician, you will probably earn more money than you’d make in the military, then you combine that with the reserve pension that kicks in when you’re 60 and gets you access to Tricare. That might be the most financially lucrative way to do it. You just get the benefit of both worlds. Your pension will start before 60 if you’ve deployed or been activated, depending on the length of time.
Financial Independence in the Military

Dr. Schofer is financially independent. He can’t get out of the military for another three and a half years, but then when you combine what he has and the pension, he is financially independent as long as he stays in another three and a half years. He thinks it is easier to do that in the military because of the access to Tricare and that people really underestimate the value of the inflation-adjusted pension for the rest of your life.

“The net present value, how much money you have to have now in order to equal a 20-year O5 commander or lieutenant colonel retirement, which really isn’t hard for most physicians to get, is $1.3 million. For a 21-year O6, which is a pretty common Navy captain or colonel, pretty common decision point to get out, that would be his decision point, it’s 1.6 million.

You can’t spend it. You can’t screw it up. As you experience certainly, there’s just tons of ways that doctors, whether it’s buying the doctor house or the doctor car or getting the doctor divorce, can screw up their finances. You just can’t spend or screw up your military pension, although I will admit that if you’re married long enough and you get divorce, they’re entitled to some of it, but it’s just hard to mess up.”

Another big advantage, of course, is that you don’t start out in this huge hole. You don’t have that debt in the beginning of your career from student loans. I think another advantage in the military is that there is not this expectation of spending that’s quite so high as it is in the civilian world. People know you’re in the military and they know military docs don’t necessarily get paid that much. I think there’s not quite the expectation to have the fancy doctor house and the fancy doctor car and the fancy doctor
vacations. Plus you get a lot of things provided for you. You get a lot of tax benefits. You get your allowances. You get free services on base, reduced costs like commissaries, the daycare is cheaper. You don’t have to think about what you are going to wear to work every day.

FIRE is really one of those things that people talk about a lot and they talk about all the changes they’re going to make when they are financially independent, like working less, dropping their night shifts, quitting their job, or going on to another career. In the military, you can’t necessarily change your job just because you’re financially independent. Dr. Schofer said if you stay in and you promote and become a senior leader you do have a lot of say in how things go in your career if it progresses and goes the way you want. You just know that when you hit that 20 or 21 year mark that you have that option. He can get out and do whatever he wants. You can’t FIRE at 10 or 12 years like some of these FIRE folks can, but he will be 46 years old. That’s still retired early.

**Moonlighting as a Military Doctor**

What tips do you have about how moonlighting should be done in the military?

1. Make sure you are an independent contractor getting paid on a 1099 instead of the W2, so you have options to open up additional space in tax advantage accounts like a solo 401(k).
2. In the Navy, you’re not allowed to do more than 16 hours a week. You could do more than that if you’re on leave. Also, in the Navy, you have to be on leave if you’re more than two hours away from your home station.

**Roth Options for the Military**

Should an attending physician in the military be using the Roth option or the traditional tax deferred option?
The Roth option. There was no Roth option available to me. I think a military doc ought to be going all Roth all the time, kind of like a resident. For a couple of reasons.

1. You’re in a low tax bracket. A quarter or a third of your income is tax free. It’s an allowance. Plus, you’re probably a resident of a tax-free state if you’re like most people in the military, so you’re not paying any state income taxes.

2. When you get out, even if you get out without a retirement, you’re going to be making more and in a higher tax bracket. If you get out with a retirement, you’re going to have a pension that fills up all those lower tax brackets.

The Big Rocks

Dr Schofer shares in this episode about how he doesn’t bother doing tax loss harvesting. And we agreed that it isn’t going to change the needle for either of us. At a certain level of wealth, all these little financial tips that we talk about on blogs and podcasts don’t make a huge difference. The reason why is because you got the big rocks right. You got your income up. You saved a big percentage of it. You invest it in some reasonable way. You kept at it for a couple of decades and now you’re wealthy. It’s really not about the little tricks and tips and a few bucks here and a few bucks there. Sure that might speed the process a little bit, but in reality, getting rich is pretty straightforward. You make a lot of money. You save a big chunk of it. You invest it in some reasonable way and you protect it with some insurance policies, and that’s really all there is to it.

Ending

If you are interested in military medicine I hope that you had some of your questions answered in this episode. If you know
someone who is thinking about joining the military, share this podcast with them.

If you have questions, this is a great community to find the answers. Ask in the WCI Forum or in the WCI Facebook group. Or if you want to have your questions answered on the podcast go record them here!

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.

Jim Dahle: This is White Coat Investor Podcast number 92, being a military physician. This episode is sponsored by Bob Bhayani at drdisabilityquotes.com. They’re a truly independent provider of disability insurance planning solutions to the medical community nationwide. Bob specializes in working with residents and fellows early in their careers to set up sound financial and insurance strategies. Contact Bob today by email at info@drdisabilityquotes.com or by calling 973-771-9100.
Jim Dahle: I had a nice note sent to me by one of our listeners here about their experience with Bob and how wonderful it was. If you need disability insurance, I think you can feel confident calling him that you’ll get the right policy for you.

Jim Dahle: Speaking of you, thanks for what you do. We have a great guest on today who’s decided to serve his country but in many ways, you’ve decided to serve your country as well and you’re providing the valuable service to your communities and to your family and to the other healthcare professionals in the hospital helping them do their jobs and helping them to accomplish great things, so thank you for that. I know it’s not always easy.

Jim Dahle: Be sure to leave us any questions you may have that you’d like to get answered on the podcast at speakpipe.com/whitecoatinvestor. You basically just record like a 20 or 30 second question. We put it right into the podcast and we’ll answer it on the podcast, so it makes for really nice feature when we get to have a few more voices on the podcast.

Jim Dahle: Our quote of the day today is from Morgan Housel who said, “The simple idea that most people wake up in the morning trying to make things a little better and more productive than wake up looking to cause trouble is the foundation of optimism. It’s not complicated. It’s not guaranteed either. It’s just the most reasonable bet for most people.” I agree with that. We’ve got an optimistic person on the podcast today. Let’s get into our interview.

Jim Dahle: Today on the White Coat Investor Podcast, we’ve got a very special guest here, Commander Joel Schofer is a board certified emergency physician. He’s got a lot of letters behind his name. He’s got an MD, he’s got an MBA, he’s a fellow of the American Academy of Emergency Medicine. He’s currently serving as the associate director for healthcare
business and executive officer.

Jim Dahle: He’s a certified physician executive. He’s published over 150 professional publications and helped numerous national estate leadership positions. He’s won tons of national, academic and educational awards and he has an academic appointment at the Uniform Services, Uniform of the Health Sciences.

Jim Dahle: He’s got numerous military decorations including the Combat Action Ribbon, a Defense Meritorious Service Medal, A Meritorious Service Medal and four Navy and Marine Corps Commendation medals. Perhaps most impressively, he has served for three years as the Navy Emergency Medicine specialty leader. For those who have been in the military, I know that this is a rather prestigious position. You’re basically in charge of all the other emergency docs in that service.

Jim Dahle: Joel is also a prolific blogger where he blogs previously on a blog called Military Millions and he’s moved on to mccareer.org where he focuses on careers for military and medical core physicians. Joel, welcome to the podcast.

Dr. Schofer: Hey, thanks Jim. Thanks for having me. Sorry, that was a pretty long introduction.

Jim Dahle: That’s okay. When you’ve done a lot, you get a long introduction, so I was so impressed with it. I felt like it was worth sharing with listeners. I think those credentials are pretty important when we get into the subjects we’re going to be talking about today. You mentioned you have a disclaimer that you want to make sure everybody here, so we’re going to put it right upfront at the beginning if you want to do that now.

Dr. Schofer: Yeah. I just like listeners to note that the views I express in this podcast are mine and don’t necessarily reflect the official policy or position of the Department of the Navy, Department of Defense or the United States
government. Thanks.

Jim Dahle: It’s interesting that when you work for the government or really any big institution, they have some strict rules about how you can make money and what you can do with your time off. It’s interesting. We’re recording this in the evening. We do most of our podcast interviews earlier in the day just because it’s more convenient for Cindy, but we’re actually doing this one in the evening just to make sure that everybody knows he’s doing this on his time off.

Jim Dahle: Let’s start with learning a little bit about you. Tell us a little bit about your family and your background growing up.

Dr. Schofer: Okay. Well, I grew up in Southeastern, Pennsylvania, had two brothers. Nobody in my family was involved in medicine. First one to go to medical school that I’m aware of. Did have a military connection. My uncle was in the Navy. Both my grandparents were in the Army, but none of my parents were.

Dr. Schofer: Pretty much stayed in Southeastern PA. I met my wife in college. We went to a small liberal arts college called Ursinus College that’s notable for two things, premed and both of us are physicians, and graduates that marry each other. Interestingly, we both applied for the Navy HPSP scholarship, Health Professions Scholarship, before we even started dating, so kind of interesting.

Jim Dahle: That is a pretty interesting connection. Speaking of which, tell us about your education and your career path so far.

Dr. Schofer: Well, I did med school at what’s now known as Drexel, but at the time was MCP Hahnemann. Then the transitional year internship in San Diego, Naval Medical Center San Diego. Did some time as a general medical officer or a GMO with the Marines and came back and did residency in San Diego. Then did a tour in Okinawa for two years. Okinawa,
Japan as a staff attending, but then came back and did a civilian fellowship on the Navy’s Dime at Christiana Care in Delaware, in emergency ultrasound.

Dr. Schofer: I’ve been practicing ever since 2009 after fellowship. Although I’ve moved around a couple of times, but still maintained my privileges and my practice there. I’ve been there for nine years now.

Jim Dahle: We have a really interesting, almost connection here. You want to tell the listeners what our almost connection is?
Dr. Schofer: Yeah. When I showed up after my fellowship, the gave me an office and they told me it was the Air Force office. It was where the people that used to come down from the Air Force Base that practiced in the Navy Emergency Department. The room that they used in their office, I think there were three people and I think you were one of them.

Jim Dahle: Yup, that’s right. He got my office. We were very nearly on the staff at the same time, but about the time the Air Force moved me out of there is when you showed up. It was a great place. I really enjoyed my time there surprisingly. It was interesting because I looked forward to my shifts and dreaded my shifts at Air Force Base while I was in the military, and so it was great to go down there and work with the residents and have that experience down there. Tell us now what you’re doing both clinically and non-clinically?

Dr. Schofer: Well, non-clinically, I mean my career has transitioned. You mentioned I was the emergency medicine specialty leader, what they’d call the consultant in the Air Force with the Army. I just turned that over actually, so it’s a three year tour usually, so I just turned that over about a week ago and starting to move toward executive medicine. I still practice emergency medicine once a week, but spend most of my time, like you mentioned, in the healthcare business realm at the hospital.
Jim Dahle: It sounds like almost a full-time administrator now, is that right?

Dr. Schofer: Yeah. I guess about 80%. I mean four out of the five days of the week, I’m doing administrative stuff. I think some of the things we may get into, that’s one of the things that’s unique about being in the military. I think it really advances your career. Just forces you to move up or get out. That’s what I’ve been aiming for, for probably the latter half of my career, so I’m happy to be where I am and I enjoy it, but I still like seeing patients once a week at least. Going to keep it real.

Jim Dahle: Now, some of our listeners know you for militarymillions.com. What happened there? I understand you shut it down shortly after attending FinCon last fall. Was that decision related to attending there or was it just the timing?

Dr. Schofer: Yeah. I think it was definitely related. I had the other blog, the one I’m still doing mccareer.org, which stands for Medical Corps, mccareer.org, for about four years. I started to get the entrepreneurial bug, and so I wanted to take what I was writing about personal finance and put it on its separate blog. I got militarymillions.com, started it, wrote on it pretty solidly for about a year. I always wanted to go to FinCon. I know you’ve been there.

Dr. Schofer: I went there and it was all about building your business, building your brand and making sure you have a passion for what you’re doing. I’m sure you can relate to this. Running one blog is very time consuming and trying to run two is too much. I was sitting there listening to all these lectures at FinCon. Everybody is inspired with all this incredible excitement for what they’re doing and I started to think, really my passion and what I really like is with the Navy blog. It’s what people know me for. It’s what I’ve been doing for four years.
Dr. Schofer: As we’ll probably talk about, I’m financially independent now and I don’t really need the money from Military Millions if it ever got to the point where it was generating significant revenue. I just decided to give it up and focus on the blog that is much more aligned with the things I like to do.

Jim Dahle: Did you get any pressure whatsoever from the Navy to have a for-profit blog on the side or money blog or anything or is this all just you?

Dr. Schofer: No pressure, but it was very awkward. A lot of the things that I talk about at work are career related and personal finance related. I certainly do most of the personal finance lectures for not only my residence in emergency medicine but also I’ve given them to the entire medical staff.

Dr. Schofer: I couldn’t talk about a for-profit blog. Just imagine you’re giving finance talks but you can’t mention the White Coat Investor. Not that Military Millions was anywhere near it, where your blog is, but people would ask me questions about investing in the thrift savings plan or TSP, the military retirement program and I couldn’t say, “Oh yeah, I have a whole series on how to invest in the TSP on militarymillions.com.”

Dr. Schofer: I couldn’t say it, because I can’t use my government position to benefit me personally. It was awkward. No one ever said anything to me about it. I did it kind of anonymously. It wasn’t hard to figure out who I was, but I never put my name just openly out there. I didn’t have a picture on that blog or anything like that.

Jim Dahle: Tell us about mccareer.org. Is this you? Is this the military? Are they related? How much influence does the military have on what is written there?

Dr. Schofer: It’s mostly me. Another unique thing I’ve done is I was a detailer, which is the person that helps people get
ready for promotion boards and moves people around in the Navy. Not just the emergency docs, but I had 23 specialties and subspecialties that I was in charge of, about 1300 physicians.

Dr. Schofer: I was in this job and it makes me think about what you say why you started the White Coat Investor, because you got sick of typing the same old emails or the same old posts on all the online forums you were participating in. I got sick of typing the same emails and I realized that all this great information was out there, but it was in 15 or 20 different places.

Dr. Schofer: All I did was take all this information that people need to manage their career, put it all in one place. If you can solve a problem and make people’s lives easier, it just tends to take off. It’s unofficial. I don’t do it like you mentioned in the beginning. I don’t ever do it at work. I don’t do it on a government computer. I do it on my own time. It’s got a disclaimer. I’m following the military social media policy.

Dr. Schofer: I get probably about 80% of the content. It’s just job announcements, things that are open. That all comes from the military, but I have to be careful what I post on there. I definitely realize that there may come the time, depending on where my career goes, where someone comes to me and says, “Hey, you can’t really do this anymore.” I haven’t gotten there yet and it’s become so popular that I think if that ever happened, there would be a lot of Navy physicians and other medical people that would have a mini revolt.

Jim Dahle: Now, that’s not monetized at all, correct?

Dr. Schofer: No. I don’t think I can do that, because I would be using my government position to personally benefit. It actually cost me $99 a year. Every year at the beginning of January, I put out this state of the blog and I always put my
revenues -$99, which people think is funny. It gets enough traffic that it could definitely pay for itself, but probably a couple hundred dollars a month, but it’s just not worth the risk.

Jim Dahle: Right. Okay. Well, let’s talk for a little bit about joining the military. What do you think should be the primary considerations for a student or a doc that’s considering becoming a military doctor?

Dr. Schofer: Well, I agree with things you’ve said in the past. It definitely shouldn’t be finances, that’s a huge part of it, especially with the cost of medical school nowadays. I really think people should only join the military if they want to be in the military.

Dr. Schofer: If you go to USUHS, the Uniformed Services University of the Health Sciences, the military medical school, you’re talking about a seven year commitment. That can be a long time. Most people who go there know they’re just going to be sticking around for 20. When it comes to the HPSP scholarship like I used, you’re talking about depending on how long you’re training is three, four, five year commitment. I know you’ve run the numbers on the finances of that and didn’t feel like it was financially worth your time, I think you went to a pretty cheap medical school, right? Am I wrong there?

Jim Dahle: Yeah, basically the way the numbers worked out for me is … I went to the University of Utah. Tuition was 10 grand the year I started. Everyone came out with loans at 1%. Then I ended up in a relatively high paying specialty, and so the numbers didn’t work out well for me. That wasn’t certainly the primary motivation of doing it. I certainly had a lot of great experiences I could have anywhere else while I was in the military, but number-wise, I definitely came out behind having the military pay for my medical school.

Dr. Schofer: Yeah, I don’t know why, but at the time, MCP
Hahnemann was one of the most expensive schools in the country, and it was about $50,000 a year. Both my wife and I went there. She’s a pediatrician, general pediatrician. Relatively lower paying specialty, so we got probably $500,000 of debt. We avoided by both of us getting the Navy scholarship. Like you mentioned, got to do some cool stuff that we wouldn’t otherwise have done. I’d do it again because it’s worked out well for me and for my wife. It’s definitely not a decision anybody should take lightly.

Jim Dahle: Let’s talk about the reasons why people do go into the military. We mentioned the money and I’m sure that’s at least partially motivating to some people. Let’s talk about some of the things that you can only do in the military that would cause somebody to go, “Yeah, I want to be a military doc.”

Dr. Schofer: Well, if you want to see the world on the taxpayer’s dollar, I suppose that’s a reasonable thing to do. I’ve practiced for two years on Japan on Okinawa. An island about a two hour flight south of mainland Japan. Have deployed three times. One deployment I’ve been to, I think I went to 10 countries. I spent nine months in Guantanamo Bay, went to war. Wore the same chemical suit for three and a half weeks.

Dr. Schofer: At the time, I thought we were going to get gassed. At the time, I didn’t think it was very cool, and I don’t think I would have given a very positive endorsement of the HPSP scholarship, but looking back now, it was definitely a life experience.

Dr. Schofer: I think a lot of people joined because they have a lot of family history. I didn’t have a whole lot, but there’s just legacy families. People who are in the military and they’re just from military families. They’re military brats and they join. They just want to serve their country. There’s just a lot of different things you can do in the military.
Dr. Schofer: It’s very easy to change your career. You have orders just come up every three or four years. It’s very easy to bounce around. You can go with the Marines and then come back and do clinical medicine, and then do something else and come back and do clinical medicine. I think for people who want a variety in their career, the military can really accommodate that.

Jim Dahle: There’s a lot of different ways into the military each of which has various financial and career benefits, pluses and minuses. There’s attending the Uniformed Services School. You can go through HPSP like you and I did, the Health Profession Scholarship Program where they basically pay for medical school.

Jim Dahle: You can also do the FAP program where you join as a resident or even come in as an attending and often get some sort of a signing bonus. What do you think is the best way in and what are the pluses and minuses of each of the various methods?

Dr. Schofer: I don’t think there’s necessarily a best way. Like we mentioned already, I think unless you’re really committed to a career in the military, I think USUHS with its seven-year obligation, I mean it’s great. You’re wearing a uniform and you’re going to military medical school, you’re getting paid. Your time in medical school will count toward retirement at the end, and so if you hit 20 and then you retire, you get credit for 24.

Dr. Schofer: When it comes to HPSP, you know you’re getting a stipend, you get a signing bonus. You’re not getting full active duty instant pay like somebody at USUHS, but you’re in a civilian med school, you’re not wearing a uniform. Your commitment is less. Usually, three or four years depending on how many years you get the scholarship for.

Dr. Schofer: The FAP program is interesting, because if you do
HPSP or USUHS, you could train in the military. That military time, if you’re training full time in service, will count toward retirement. It counts toward your 20 years you need to get to. If you do the FAP program, you’re in a civilian residency already. That time is not going to count.

Dr. Schofer: Let’s say you do a three-year emergency medicine residency since we’re both emergency physicians. You sign up for the FAP program and you get that extra pay while you’re a resident. You’re going to come on active duty. You’re going to have only three years you owe and you’re going to hit your decision point that you can get out with only three years toward a 20 year military commitment.

Dr. Schofer: I did HPSP because my residency and my fellowship. I hit that decision point at 10, so I was already halfway toward a 20-year retirement. If you had done USUHS, I would have been so close to 20 before you even had that decision to get out.

Dr. Schofer: I think it just depends on your commitment to the military. You want to get your money and get your experience and your leaning toward getting out. The FAP program would be great. You think you’re in for 20 years for sure? Then USUHS would be great and the HPSP is probably a good compromising between those two extremes.

Jim Dahle: Is it easy to join the military as an attending?

Dr. Schofer: Tough. Honestly, it’s a hard question to answer, because people will contact me and they say, “Hey, I’m an ER doctor. I want to come into the Navy.” You think that would be easy, but you have to pass the physical standards. You have to contact your recruiter. It’s just kind of a black hole. I would direct people to the recruiters. It was very rare that I ever heard from anybody again.

Dr. Schofer: It didn’t seem to work out. On a high percentage of the time when people would contact me and say they want to
join. You don’t ever get any feedback why. The recruiters are kind of … There’s a command called Navy Recruiting Command and that’s where you direct people. The guys like me on active duty, even as a specialty leader, you don’t get a whole lot of information about what happens to those folks.

Dr. Schofer: I do know a couple of people that did it. It just doesn’t seem to … The ratio of people that are interested to the people that actually wind up showing up one day, it definitely is not a high percentage of success there.

Jim Dahle: Yeah. My take on these different routes into the military is that USUHS seems to be the best route for somebody that wants to make a whole career of it. Not only do you get that extra payment at the end, but you also … You’re in the military, right, from day one and getting paid like it. HPSP seems like a better way for somebody who wants a taste of the military. They want to be in it for four years at the beginning of their career, have an adventure and then go on and have kind of a civilian career.

Jim Dahle: Then FAP seemed like it was the best way to get in if you were interested in avoiding going through the military match because you basically sign on with the military after the match is done. I don’t know if that’s the way you look at them or not, but that seems the way I’ve always categorized them as far as why people pick one over the other.

Jim Dahle: Part of it might just be when they decide they want to go into the military. If it’s too late to apply to USUHS, you can’t go there. If you’re already out of med school, you can’t do HPSP, but that was kind of my take on it.

Dr. Schofer: Yeah, I would agree with that. Honestly, I didn’t even know USUHS existed when I was a senior in college and applying to medical school with the HPSP program. I had already been accepted to HPSP when I even found out it existed.
Jim Dahle: Yeah. Let’s talk about the military match for a minute. What’s the secret to navigating the military match successfully?

Dr. Schofer: Well, I’ve got a post on mccareer.org about tips to match in the military. As the specialty leader, you run the match for your specialty. I’ve done that for a number of years. I’ve been involved in four military matches on the Navy side of things.

Dr. Schofer: I think that you’re in a much smaller applicant pool. Depending on the specialty you want to do, it can be potentially even harder to match. I think the key is, number one, you have to be realistic about your chances of matching in the specialty you’re trying to match in. It’s actually harder to match in Navy emergency medicine than it is to match in general emergency medicine, even though general emergency medicine is extremely competitive.

Dr. Schofer: There were people very year that were applying to be emergency physicians. Even people that already had more than 10 interviews lined up with civilian programs. They were obviously very competitive and I couldn’t take them. I didn’t have enough room. We just had such competitive applicants that it just … it’s just harder to match in the military.

Dr. Schofer: I think that the biggest downside to the military match is that if you wind up not getting what you want, the military is going to find a job for you. You could wind up being a transitional intern or an internal medicine intern or any kind of intern even if it isn’t the one you wanted, because hey, guess what, you’re on active duty and you need a job. I think that can definitely … That uncertainty can definitely frustrate some people.

Jim Dahle: Yeah. I remember the year I applied in the Air Force. There were about 50 of us that want to do emergency medicine. I think there were about 15 active duty spots and about 10 deferrals into the civilian match. The match rate
that year was literally 50% into emergency medicine in the Air Force, which was I think emergency medicine that year was like 93% in the civilian match. People that wanted to do emergency medicine got to do it. It was dramatically more competitive in the military.

Jim Dahle: On the flip side, I know of at least one doc who wanted to be a dermatologist. Had spent some time as a family practice doc and then came back and applied to do dermatology and it was dramatically easier to match into dermatology in the military that year than it was in the civilian world. I think it goes both ways.

Dr. Schofer: Yeah, it just depends on how many applicants there are. I mean your ratio of two to one. Applicant’s spots is pretty much what I’ve been dealing with in emergency medicine. In some of the specialties where on the outside they would be really competitive, there might not be a whole lot of training programs in the military and then one year there might just not be a whole lot of applicants, so you may luck out.

Jim Dahle: I know a lot of people wonder if they can get good training in the military. I mean is that factor specialty dependent? Do you have any tips for maximizing the quality of your training if you have a military commitment?

Dr. Schofer: Yeah. I personally think that the military programs across the border are excellent, but I’m also probably biased because I trained them. There was an article that recently came out this week that showed that they were looking at general surgery programs in the one at Madigan, which is an Army hospital was ranked number one of more than 200 programs in general surgery of the percentage of their graduates that passed their boards the first time around. Something like 97% or 98% first-time pass rate.

Dr. Schofer: The article is saying if you’re in the 89th
percentile on your in-service training exam, you’re at the bottom of your class. What I usually would tell people, because a lot of the medical students and people that are applying for specialty would ask me as a specialty leader, “What’s your take?”

Dr. Schofer: I would say, “Look, I think in the military, your program, you’re going to be surrounded by people that are a little more regimented, oftentimes more older and more mature because a lot of people in the Navy at least wind up doing general medical officer or GMO, flight surgery or undersea medical officer tour, so they’re a little older.” It’s just a more motivated bunch I think.

Dr. Schofer: You’re still going to see sick patients. You’re still going to get all the training you need, all the programs that are accredited, so it’s still going to get you to the same place, board-certified and whatever specialty you want to be. Compared to the civilian, there’s also some experiences in the civilian world you’re just not going to get in the military. Meaning like just in our specialty, for instance, if you want to crack chests every day, it’s not happening here and I think you know that.

Jim Dahle: Yeah, for sure.

Dr. Schofer: It will happen in your 40% or 50% of your out service rotations that you’re doing in civilian hospitals, because you just got to do outside rotations to get the mix and the patient acuity that you need. If you want crack chests every day, hey, you’re going to want to do a civilian deferment. I think the academic programs and the teaching in the military programs are excellent. I did a fellowship at a very highly regarded civilian residency program, and I just think the education and the quality of the residence was superb in the military when compared to the civilian world.

Jim Dahle: Yeah. That was kind of my take on it as well.
Obviously, I have a bias as well as faculty member for a military residency program. The residents were always very sharp academically. There’s a big focus for sure on doing well on board exams. They like being able to say, “Hey, we’re number one of all programs.” I think there’s a little bit of a chip on the shoulder of most military residency programs.

Jim Dahle: The problem came in, in that they were taking care of a very healthy population particularly the active-duty population is very, very healthy. They don’t have a lot of terrible diseases, and so in a specialty like general surgery or emergency medicine or critical care, the pathology in the actual military medical center was going to be lower than what it might be in a comparable civilian center.

Jim Dahle: I think the way most programs deal with that issue, lower numbers of procedures and a little bit less pathology is by doing a lot of rotations outside the military. I guess my question for you is do you think that’s adequate to make up for that loss of pathology and procedures?

Dr. Schofer: I do. Like I said though, if you want to be doing this stuff every day every month then you’re probably going to want to get a civilian deferment. We all have to meet the ACGME requirements whether you’re a military program or civilian. I personally enjoyed it a lot. I thought it was great to go out into a civilian hospital and take care of the sickest of the sick for two or three months and then come back and take a little breath and refocus on academics and then jump back into the fray a couple months later.

Dr. Schofer: I think I am … This is, again, maybe I’m biased, but I really think if you gave me one medical student and I had to make them the best physician in any specialty and I had a choice, civilian or military, I’d go military because they’re just going to come out with … I just think they’re going to be better.
Jim Dahle: All right. Let’s move on to the end of residency here. Do you have any tips for a doc coming out of residency to get the assignment they want? I don’t know if I’ve ever talked on this podcast about the horror story I had coming out, but what tips do you have for somebody having kind of been the specialty leader and been a detailer to get the assignment they’d like to have?

Dr. Schofer: Well, what was your horror story?

Jim Dahle: Well, I’ll tell my story. It was interesting. I was in a civilian residency. I had gotten a civilian deferment out of the match. I had no military experience whatsoever. I find out from a letter or something that I need to submit some kind of a rank list of all the places that Air Force emergency doctors can be sent.

Jim Dahle: My wife and I stewed about it and we went back and forth, and we prayed about it and we came up with this list in the order of where we’d like to go. A couple of weeks later after we sent that in, I get a call saying, “Hey, we’ve got penciled in for Keesler.” This was a list of 15 places, right? Keesler was number 15.

Jim Dahle: I think a hurricane had just gone through it and flatten the hospital or something. I mean it was not exactly a desirable place to go at the time. I said, “Why do I make the rank list? What’s the point of making it if I just go to number 15 on it?”

Jim Dahle: I ended up at Langley because I was talking to Linda Lawrence who was the specialty leader at the time. She was a future president of the American College of Emergency Physicians, but she said, “Well, we have one other spot. We’re going to try to open back up at Langley.” I covered the phone and asked my wife, “Where’s Langley?” She said, “Virginia. Take it. Take it.” That’s how I ended up at Langley.

Jim Dahle: It actually worked out pretty well, because I got
to work most of my shifts with the Navy which was pretty fun. I was the only emergency doc at Langley for a year and there are only two of us for another year before we started getting more docs in there.

Dr. Schofer: Yeah. I mean as a detailer who assigned all sort of specialties and then specialty leader have been assigning people for four and a half, five years. I think across the board, you have to realize when you’re a new grad out of residency, like you experienced, you’re at the bottom of the barrel. People who are overseas and want to come back, people who have gone operational, deployed, people who are senior to you. It takes a little while for you to rise up to the level where you are going to get the pick of the litter.

Dr. Schofer: I would also encourage people to always just be honest. The military is still with honest people and we all talk. If you try to play games, there are people who would try to play their specialty leader off of me when I was the detailer. Play dad against mom. Well, dad and mom talk. The military is about people, so you want to treat people nicely and don’t play games.

Dr. Schofer: Yeah, you’re right. When you’re junior, most of the time, you’re going to get what no one else wants. You’re going to get what nobody else wants. To be honest with you now, at least in the Navy Emergency Medicine, we do a match. We use the ACGME matching algorithm and it is literally an algorithm. It’s not really about seniority like all the places that have spots, submit a rank list and then you submit your rank list just like you did and it gets run through the algorithm, and that’s where you go. We found a fairly transparent and fair way to do it, at least in my specialty that people seem to like.

Jim Dahle: Let’s talk about what people like anyway. In your experience, what percentage of docs are happy in the military and what percentage of the docs there just can’t wait to get
Dr. Schofer: Well, I don’t know. It’s probably the rule of thirds. There’s probably a third that can’t wait to get out, a third that are vacillating between … Are pretty neutral, and then a third that love it. I don’t really have a sense across the services, especially Army and the Air Force how unhappy or happy people are.

Dr. Schofer: I think probably the most unhappy people are the people that pick a service that doesn’t align with what they like. They don’t like to camp and they join the Army. I don’t understand that. They can’t swim and they join the Navy. This stuff happens all the time. It just doesn’t make a whole lot of sense. Or they sign up like we’ve already talked about. They sign up for the military just purely for the money. They don’t want anything to do with the military. As you know, when you’re in the military, there’s a whole lot of stuff that comes with it that has nothing do with being a doctor.

Jim Dahle: Yeah, for sure. In my experience, I think the Air Force attracted a higher percentage of docs who kind of did it for the money. I found as a general rule, having worked basically in the Navy and in the Air Force that the Navy docs were happier with their choice to join the military. I never really understood exactly why that was.

Jim Dahle: I think it was not necessarily that the Air Force was treating people particularly badly while they were in. I think it was that the people selected themselves that way and people who are more likely to be happy as military docs join the Navy or the Army and not the Air Force, but I don’t know that, that experience is generalizable.

Dr. Schofer: Yeah, I don’t know. I don’t interact with the Air Force very much. The best thing about it is they always have nice golf courses as you know. Pretty nice one up at Langley. Their deployments tend to be shorter. The Army’s tend to be
really long and ours tend to be in between. We’re obviously usually clustered around the water so you want to live on the beach, you want to join the Navy, but I don’t interact with the Air Force very much. I really don’t. I interact more with the Army than I do with the Air Force.

Jim Dahle: I hear lots of … I don’t know if it’s complaining, but lots of discussion and worrying among medical students and residents about GMO tours. What’s your take on a GMO tour?

Dr. Schofer: I’ve been in the Navy 17 and a half years and I think for 17 and a half years, they’ve been getting rid of the GMO tour. People probably don’t even know what it is, but you basically do your internship and then you go spend some time as a GP. You’re basically a primary care physician for a bunch of healthy people on a ship or with the Marines in whatever setting. Sometimes you’re even in a clinic.

Dr. Schofer: You get a little extra pay. You definitely get a lot of experience. You oftentimes feel like you’re over your head because you’ve only had an internship. Very rarely do people complain about it once they get into it. You get the pay. Their life is pretty good. They get experience. They get a little bonus when they come back and apply to the GME match. The military match, rewards those who have gone out and done their time. It’s very rare that people complain about it.

Dr. Schofer: There’s a lot of people that just want to do their straight through training and then like I said, the Navy is talking about getting rid of that forever, because the Army and the Air Force don’t do a lot of this. We’re a little unique in the Navy with respect to that. It’s very rare that people complain about it. It’s usually a pretty good experience for folks. You get to go out there and grow your clinical skills and come back and refocus on your … Doing your residency program with a little extra experience in your bag.

Jim Dahle: What do you like best about being a military doc?
Dr. Schofer: It means something to me to serve my country. I think that we get to take care of some of the best patients in the world. There’s great people out there, but I think that the people I get to take care of, although like you mentioned are oftentimes not as sick as some of us would like potentially. I think they’re just great people. They’re part of the 1% or less that have worn the uniform, and it’s an honor to take care of them.

Jim Dahle: What do you dislike the most about being a military doc?

Dr. Schofer: Online training. That is not even a question. The solution to every problem in the military is to create online training and make you do it. It just drives you crazy. You’re a board certified emergency physician and you have to do online training about the flu shot. Really? I have to learn about the flu shot and I have to go through 20 PowerPoint slides about the flu shot, but you do. I’m sure you experienced these things.

Jim Dahle: Oh, yeah.

Dr. Schofer: They’re the things you have to do. At some point, your brain shifts and you know you’re in for 20 and then you start to realize, “This online training that I used to hate. Well, at least they’re paying me $100 or more an hour to do it.” I suppose there’s worse things in life, but yeah, online training. That is absolutely the worst.

Dr. Schofer: I’ll tell you, Secretary Mattis, the secretary of defense, he’s trying to reduce the training burden and trying to get rid of training that does not have anything to do with your primary job, but man, we still have it. That’s crazy.

Jim Dahle: How long do you expect to stay in the military?

Dr. Schofer: Well, I’m in 17 and a half years and so I got picked up for O6, so I …
Jim Dahle: Congratulations.

Dr. Schofer: Thanks. I align my bonus to ... I have to stay into 21 now to retire as an O6, so I've got three and a half more years. I'm planning a 30-year O6 career, but I honestly don't think you really know what you want to do until you're faced with the decision. You'd have to ask me 9 to 12 months ahead of my 21 year mark when I could get out, because you got to submit your retirement paperwork 9 to 12 months ahead of time.

Dr. Schofer: Planning 30 years, but as you’ve experienced, things change so rapidly in the military. What it is now compared to what it’s going to be like two and a half years from now when I’m actually facing that decision that I could actually retire. It could be drastically different.

Jim Dahle: It’s interesting. When I was a captain. In the Air Force, a captain is an O3. In the Navy, a captain is an O6. It’s basically the guy in charge of an aircraft carrier. When I’d call the lab and say, “This is Captain Dahle and I’m wondering where my CBC is.” I sure got a lot of attention, and so that was kind of a fun thing about being down there.

Dr. Schofer: I know. Every now and then, somebody will do that and then they’ll show up and they’ll be wearing their Air Force uniform, because we have a lot of joint residency programs. You’ll pull them aside and you go, “I don’t think you should be doing that in the Navy. Maybe you ought to call yourself doctor.”

Jim Dahle: All right. Let’s get to some more hardcore financial topics here. Let’s talk about disability insurance for military physicians. What do they need to know about disability insurance?

Dr. Schofer: Well, I think, as you know, I’ve written that article for disability insurance for military physicians on your site. I think the bottom line is you got to realize that if you’re a highly paid professional in the military that the
military’s disability insurance coverage if something would happen to you is not going to compensate you like you’re a physician.

Dr. Schofer: It’s very hard to get disability insurance as an active duty physician or officer or whatever you do, attorney, dentist. For some reason, insurance companies don’t want to insure people that go to war. It took me half my career to find any policy that would give me a supplemental coverage, and that was the American Medical Association group coverage. They’ll give you up to $2500 extra disability insurance a month.

Dr. Schofer: Then if you really want to get into an individual policy, the best you can get, you go to one of your people that you recommend in your site and they will … You’re really stuck with, nowadays, Lloyd’s of London, which is pretty expensive. Back when I did it, I was able to get Northwestern Mutual and Lloyd’s of London cobbled together and I was able to get an extra $6000 of coverage a month if I was disabled on top of the military.

Dr. Schofer: Then if after five years I was still 100% disabled, I got a lump sump payment of $500,000. That was certainly better than what I would have gotten in the Navy if I was disabled and couldn’t practice, but you can get a disability insurance, but man, it’s expensive. I don’t know what it’s like to get it as a civilian, but it’s expensive and extremely hard to get for somebody in the military.

Jim Dahle: Now, you can still get a Mass Mutual policy as well, can’t you, for military docs?

Dr. Schofer: Actually yeah. Now that I think about it, it wasn’t Northwestern, it was Mass Mutual.

Jim Dahle: Yeah.

Dr. Schofer: I think you’re stuck with Mass Mutual and Lloyd’s, but there are maybe other options out there.
Jim Dahle: I think that’s right. Basically, the big five or six disability insurance companies, you got one of them. The Lloyd’s policy is not an awesome policy compared to the typical civilian doc gets.

Dr. Schofer: Yeah. I was able to get 2000 through Mass Mutual. I think my payment was approximately $100 a month for that. The Lloyd’s, I save 20% by paying ... It was a five year policy, so I bought it in a lump sum. I think it was going to cost me about $12,000. I paid 10 and I saved $2000 by just paying it all upfront. It’s pretty pricey especially with the military salary depending on where you are in your career.

Jim Dahle: Yeah. There’s not a lot extra money there to be buying expensive disability insurance. That’s for sure. Let’s talk a little bit about the blended retirement system. Now, we’re recording this in December of 2018. I think there are some people that have to make this decision by the end of the year, but they won’t hear this podcast for another six weeks or so.

Jim Dahle: We’ll just assume that we’re talking about the system as it will be in place as of the start of 2019. Can you explain what military doctors have been doing about retirement savings for the last year or two since they’ve been hearing about this new blended retirement system?

Dr. Schofer: Sure. The old legacy system, which is what I have, it was a cliff vest. You had to stay in 20 years or you got nothing. If you got out at 19 years and 11 months, not that anyone would do that, but if you did, you left with nothing. No DOD contribution to your retirement and all you would have is whatever you of your money you put into the thrift savings plan, which is our 401(k) equivalent.

Dr. Schofer: Now under the blended retirement system, you will get a DOD match. If you contribute 5%, they’ll match up to 5%. That way, if people leave, they actually leave with some DOD
money in their retirement account that they can take with them. I think it’s much more modern system, but if you do the BRS or you’re under the BRS and you stay till 20, your pension gets cut by 20%, because the multiplier under the old system is they take the average of your top three years of your highest pay, and then they multiply it by two and a half percent times the number of years you’ve stayed in.

Dr. Schofer: If you stay in 20 times two and a half, you basically get 50% the average of your highest three years of pay. Under the BRS, instead of the multiplier being two and a half percent and it’s cut by 20%, so it’s two. You can get 40%. You still get a pension, but all along the way, you got to match of up to 5%.

Dr. Schofer: In the end, you could work out, depending on how your investments do, you could obviously make out even better. You just don’t know. I think it’s a much more modern system. The math, I have physician specific numbers, but it’s among officers, 57% get out before 20 years. Only 43% stay in. The percentage among enlisted is less than 20% stay into 20. The overwhelming majority of people under the old system got nothing toward retirement. It was just whatever they saved.

Jim Dahle: Now, as of 2019, there’s no decision to make anymore. You’re just in this new program, correct?

Dr. Schofer: Correct. Now, from what I understand, anyone that signed … For instance, if you signed an HPSP scholarship under the old system and you’re just not on active duty yet because you haven’t graduated from medical school, what we have been told is that anybody in that situation, once they come on active duty even if it’s on 2019 or 2020, they’re going to have a one-time chance to either go with the old system or come under the new BRS.

Jim Dahle: What do you think? Somebody that plans to make a career out of it, which one should they choose?
Dr. Schofer: I don’t think it’s that simple. Life changes. I think if you plan to make a career out of it, there’s a ton of people that plan to make a career out of it that didn’t. I think if you know you’re just going to do your time and you’re just going to get out, you’ve got to take the blended retirement, because that’s the only way you’re going to leave with any DOD money toward your retirement accounts.

Dr. Schofer: If you’re not sure, like we just talked about, the odds say you’re not going to do it, so you should go BRS. If you’re 100% positive you’re going to stay 20 years, my personal opinion is you should stick with the traditional if you had that choice. Like you said, by the time they’ve listened to this, most people won’t have a choice anymore. They either already made the choice or they came in under the BRS.

Jim Dahle: Yeah. I certainly would have had more money if I had been under the BRS rather than the old system. I imagine if it’s 57% for a typical officer, it’s got to be higher than that for docs. I think most docs probably get out, don’t they? Maybe not so much in the Navy, but certainly in the Air Force. It’s a higher percentage than that.

Dr. Schofer: Yeah, that’s always been my guess. I just don’t have physician’s specific data to back it up, but because of the job market and the money you can make, I would suspect you’re right.

Jim Dahle: Let’s talk a little bit about a reserve pension. A lot of times, a doc decides, “I’m going to get out of active duty, but I’m going to go on reserve so that I can get this different pension.” It’s not the same pension, but it’s a pension that starts at age 60. What’s your take on that? What do you think about that as an option?

Dr. Schofer: I think it’s a great option. Not necessarily because of the pension, but because of … You and I have talked
before online, the value of Tricare. That’s the part of it that a lot of this fire community, their biggest worry is what are they going to do about health insurance?

Dr. Schofer: While there are other options out there, a reserve pension while it won’t have the same pension that I would have, it doesn’t start till 60 versus I could retire age 46, and my pension would start immediately. That reserve pension would be probably lower, and it doesn’t start till 60, but it’s still government pension, inflation adjusted, but it gets you that Tricare.

Dr. Schofer: To me, I think if you get out and you can work, earn your normal wage as a civilian physician, it’s probably going to get more money that you’d make in the military unless you’re in a primary care setting, because honestly, they get paid pretty well in the military. Then you combine that with the reserve pension that kicks in when you’re 60 and gets you access to Tricare, that’s pretty … It might be the most financially lucrative way to do it. You just get the benefit of both worlds.

Jim Dahle: Of course, it’s not a free benefit. You got to put in your time as a reservist as well. Those folks are I think earning that pension as well.

Dr. Schofer: Yeah, there’s no doubt about that. Your pension will start before 60 if you’ve deployed or been activated, so it depends on how much time you’ve done that, but it will start. Let’s say you did that for a year, it will start a year earlier than 60.

Jim Dahle: I didn’t realize that. That’s a nice benefit. I think for people that got deployed a lot, that could add up to several years.

Dr. Schofer: Yeah.

Jim Dahle: Let’s talk a little bit about financial
independence in the military. You said that you were either becoming financially independent relatively soon or you already are. Do you think it’s easier or harder or about the same for a military doc to become financially independent?

Dr. Schofer: I think it’s easier, because … You know what, I’m definitely financial independent, but just because I can’t get out of the military for another three and a half years, but then when you combine what I have and the pension and what I live off of, yeah, I’m financially independent as long as I stay in another three and a half years.

Dr. Schofer: I think it’s easier because of the healthcare, the access to Tricare. I think it’s easy because people really underestimate the value of the inflation-adjusted pension for the rest of your life. Every year, the Department of Defense has to report to Congress. They say a whole accounting of the retirement system.

Dr. Schofer: The net present value, how much money you do have to have now in order to equal a 20-year O5 commander or lieutenant colonel retirement, which really isn’t hard for most physicians to get, is $1.3 million. For a 21-year O6, which is a pretty common Navy captain or colonel, pretty common decision point to get out, that would be my decision point, it’s 1.6 million.

Dr. Schofer: You can’t spend it. You can’t screw it up. As you experience certainly, there’s just tons of ways that doctors, whether it’s buying the doctor house or the doctor car or getting the doctor divorce, can screw up their finance. You just can’t spend or screw up your military pension, although I will admit that if you’re married long enough and you get divorced, they’re entitled to some of it, but it’s just hard to mess up.

Jim Dahle: Yeah, I think that’s one big advantage of it. Another big advantage, of course, is that you don’t start out
in this huge hole. You don’t have that debt in the beginning of your career. I got an email this week from somebody who was a doc, 50 years old, owes $300,000 in student loans and has $300,000 toward retirement at 50 years old. I think starting at zero is, in some ways, a big huge advantage.

Jim Dahle: I think another advantage in the military is that there’s not this expectation of spending that’s quite so high as it is in the civilian world. People know you’re in the military and they know military docs don’t necessarily get paid that much. I think there’s not quite the expectation to have the fancy doctor house and the fancy doctor car and the fancy doctor vacations. I wonder if that doesn’t contribute as well.

Dr. Schofer: Yeah. You get a lot of things to provide it for you. You get a lot of tax benefits. You get your allowances. You get free services on base, reduced costings like commissaries, the daycare is cheaper. It was cheaper when we needed it. There’s a whole host of benefits. I don’t have to think about what I’m going to wear to work every day.

Jim Dahle: Yeah. Certainly, save some money on scrubs there. An emergency doc is going to save a lot, but fire is really one of those things that people talk about a lot and they talk about all the changes they’re going to make when they’re financially independent, how they’re going to work less, how they’re going to quit their job. How they’re going to do an encore career. How they’re going to drop their night shifts or whatever.

Jim Dahle: In the military, you can’t necessarily change your job just because you’re financially independent. What’s the point of financial independence in the military if you really can’t cut back on work or dictate how you work or avoid deployments, etcetera?

Dr. Schofer: Well, I think that you can do some of that. If
you stay in and you promote and you become a senior leader, now you don’t want to be some kind of dirt bag that never works, doesn’t deploy and deploys everybody else. You have to keep yourself honest.

Dr. Schofer: I think you do have a lot of say in how things go in your career if it progresses and goes the way you want. You just know that when you hit that 20 or 21 year mark that you have that option just like I do. I could get out and do whatever I want. Yeah, maybe I can’t fire at 10 or 12 years like some of these fire folks can, but I’ll be 46 years old. That’s still retire early. I don’t know that I’ll be retired. You’re right. Like I said, you can’t do a 12-year career in fire because you’re not going to get a pension, but 20, that’s still pretty early.

Jim Dahle: Yeah. I think one of the most underestimated ways to fire is to join the military at 18, have them put you through college. Finish it 38 with an officer’s retirement and collecting Tricare and this pension for the rest of your life. That’s 38 years old that someone who joined at 18 could get out at, and that’s really a pretty quick route to fire. We have a lot of people envious.

Dr. Schofer: I don’t know that your four years in college would count. You’d probably have to do it till 42. Same thing. You’re right. Yeah. Then you’ve got access to Tricare, which takes care of one of the biggest worries for people that are in the fire community.

Jim Dahle: Now, a lot of military docs moonlight. Let’s talk about that. What tips do you have about how moonlighting should be done in the military.

Dr. Schofer: I used to have to approve people’s moonlighting applications. They would come to me requesting permission to moonlight and I think one of them was common mistakes they would make which you certainly are very familiar with is they
already sign the contract to moonlight and they’re going to be an employee.

Dr. Schofer: They didn’t understand that if they were an independent contractor getting paid on a 1099 instead of the W2, they’d have the options to open up additional space in tax advantage accounts like in a SEP-IRA preferably as you’re well aware of a solo 401(k) over the SEP. They’ve made that mistake because in the military …

Dr. Schofer: That’s the one thing. Actually, I don’t moonlight. I don’t have very much tax protected space. I’m backdoor Roth. My wife is backdoor Roth, and then the TSP. After that, everything is in taxable accounts. If you’re a 1099 moonlighter in the military, you can open up that solo 401(k). You probably can’t moonlight enough to fill it up, because there’s limitations on how much you can moonlight, but definitely, you could put another $10,000 or $20,000 in there potentially depending on how much you’re working.

Jim Dahle: What are the limitations on moonlighting in the military?

Dr. Schofer: Well, I know that in the Navy, you’re not allowed to do more than 16 hours a week. You could do more than that if you’re on leave, on vacation. I’m not sure how they limited in the Army or the Air Force. You also, in the Navy, at least you have to be on leave if you’re more than two hours away from your home station.

Dr. Schofer: I can’t fly to San Diego to moonlight over a weekend. I got to take leave. They have a two-hour radius around where you are and you can’t do it more than 16 hours a week without requesting special permission.

Jim Dahle: Now, let’s talk a little bit about. You’ve mentioned several times that you have the TSP, the thrift savings plan or the military 401(k) system. I get a lot of questions about whether an attending physician in the military
should be using the Roth option there or the traditional tax deferred option. What’s your take on that?

Dr. Schofer: Well, I think the probably the Roth option, because like we’ve already talked about, most people are going to get out. Their income is probably going to go up. While they’re in the military especially with all the tax advantages you have with some of your allowances, you’re probably in a lower tax bracket, so it probably makes more sense to pay the Roth version.

Dr. Schofer: My personal opinion on it is that I can afford the taxes now, so I put every dollar I can in the Roth. I have no idea what the future holds when it comes to tax rates or changes in law. For the first half of my career, we didn’t have a Roth option. I’m shooting for a 50-50 ratio just to have that variability, but I can’t catch my traditional TSP. It’s just because of all the compounding and all the years I had it early in my career where there wasn’t even a Roth option. I’m a huge fan of filling any Roth space you have, but I’d be interested in hearing your thoughts about it.

Jim Dahle: Yeah, I’m totally jealous. I got out in 2010. There was no Roth option available to me. I think a military doc ought to be going all Roth all the time kind of like a resident. For a couple of reasons. One, you’re in a low tax bracket. A quarter, a third of your income is tax free. It’s an allowance. It’s your BAH and your BAS. Plus, you’re probably a resident of a tax-free state if you’re like most people in the military, so you’re not paying any state income taxes.

Jim Dahle: Then when you get out, even if you get out without a retirement, you’re going to be making more and in a higher tax bracket. If you get out with a retirement, you’re going to have a pension that fills up all those lower tax brackets. Either way, I think you’re better off with a Roth. I see very little reason for any military doc to not be doing the Roth
TSP. It would really have to be a pretty unique situation to make sense I think.

Dr. Schofer: Right.

Jim Dahle: All right. Let’s talk about tax loss harvesting. You made this comment in an email you sent me this week that you don’t tax loss harvest. Tell the listeners why you don’t.

Dr. Schofer: I don’t because I don’t care anymore. Are you not there yet? Are you only doing it because you have a financial blog? I mean seriously. I’m asking you.

Jim Dahle: There’s no doubt that it’s not going to move the needle for us, for sure. What are we talking about? It’s $3000 a year against your ordinary income. Maybe that knocks $1000 or $1500 off your tax bill in a given year.

Dr. Schofer: Yeah. I don’t have near the income you do because of your blog, but I choose life. I don’t know. I just don’t do it. I just read a lot of people like Physician on Fire and you, they talk about tax loss harvesting. I just sit there and think, “Man, these guys would think I was a total moron.”

Dr. Schofer: I just can’t get myself motivated to do it. It’s like the financial equivalent of online training in the military. I just can’t do it. I don’t know. I just don’t care, but I just always thought you would find that … Maybe you would tell me I was stupid for not doing it.

Jim Dahle: It reminds me of a post that the Physician on Fire did recently where he tried to calculate the actual benefit of doing a backdoor Roth IRA versus just investing in taxable. I think his conclusion was that it was worth a lot less than a lot of people think it is.

Jim Dahle: At a certain point, at a certain level of wealth, it’s true that all these little financial tips that we talk about on blogs and podcasts don’t make a huge difference. The
reason why is because you got the big rocks right. You got your income up. You saved a big percentage of it. You invest it in some reasonable way. You kept at it for a couple of decades and now you’re wealthy.

Jim Dahle: It’s really not about the little tricks and tips and a few bucks here and a few bucks there. Sure that might speed the process a little bit, but in reality, getting rich is pretty straight forward. You make a lot of money. You save a big chunk of it. You invest it in some reasonable way and you protect it with some insurance policies, and that’s really all there is to it.

Dr. Schofer: Yeah. My father is pretty wealthy. He owned a couple businesses and he’s retired when he was about 50. I wonder if I’m going to get to his point. He’s at the point where he can’t stand his retirement accounts now. I don’t think I’ll ever get there. You can’t stand them because they limit what he wants to do and he’s going to have to do RMDs. It just drives him crazy. Hopefully, we’ll both get there one day too.

Jim Dahle: Yeah, hopefully. We’re going to wrap up here soon. I think we’re pushing about 50 minutes or so. You’ve got the ear of 20,000 docs and similar high-income professionals. What do you think they should know that we haven’t covered yet today?

Dr. Schofer: I think it’s kind of like you just said. It’s real simple. It’s the big stuff. I’m at where I am today on a military salary because I saved 30% of my gross income for the majority of my career. The other half of that equation was I didn’t drive the doctor car, I don’t live in the doctor house and I haven’t had the doctor divorce. When it comes to the military, people just can’t. They just don’t underestimate the value of that inflation-adjusted government guaranteed pension if you can stay in for 20.
Jim Dahle: Dr. Schofer, thank you for your time and for coming on the podcast and congratulations on your selection for captain.

Dr. Schofer: Hey, thanks. Thanks for having me Jim.

Jim Dahle: That was great having Dr. Schofer on. One of the things I miss about the military is the high quality of the people in it. I just love seeing people that have this desire to serve. It’s wonderful. Thank you to him for being willing to come on. I think we’re about six months trying to get him on the podcast, but what I’m finding is I get further and further away from my own military service now eight and a half years ago is that I’m starting to not know the answers to the military financial questions.

Jim Dahle: People started asking me about this new blended retirement system and I have no idea because it wasn’t in there when I was on active duty. Remembering details like when the reserve pension starts and that sort of stuff. It’s nice to have somebody watching me and correcting me when I make the inevitable errors. Dr. Schofer has been doing that for me over the last year or two. Every time I screw something up with the military, he shoots me an email and I’m able to correct it, so I appreciate that.

Jim Dahle: This episode was sponsored by Bob Bhayani at drdisabilityquotes.com. They’re a truly independent provider of disability insurance planning solutions to the medical community nationwide. Bob specializes in working with residents and fellows early in their careers to set up sound financial and insurance strategies. Contact Bob today by email at info@drdisabilityquotes.com or by calling 973-771-9100.

Jim Dahle: If you haven’t checked out our Facebook group or our subreddit, be sure to do that. Please leave us a five-star review if you can on iTunes. Also, if you’d like to get your questions on the episode, leave them at
speakpipe.com/whitecoatinvestor and we’ll get your voice on the White Coat Investor Podcast.

Jim Dahle: Until then, head up, shoulders back, you got this and we can help. We’ll see you next time in the White Coat Investor Podcast.

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**My MOC Debacle: Nevermind That $2,100 Exam You Just Passed**

[Editor’s Note: This post was previously published on WCI Network partner, Physician on FIRE. It brings up a very controversial topic in the House of Medicine- Maintenance of Certification (MOC). Board certification is required by many hospital staffs and most docs actually want to maintain theirs, but the process over the last 10-15 years has become increasingly expensive and time consuming. A rebellion has begun, more severe in some specialties (Internal Medicine anyone?) than others, and hopefully will reign in the costs and hassle required. While reasonable people can disagree about the value of any ongoing**
board certification requirements, I think very few practicing docs think their MOC process is perfect.

In 2014, I reached the seven-year mark after my initial Board Certification with the American Board of Anesthesiology (ABA). At the time, it was a significant milestone. I was eligible to take the all-important Maintenance of Certification in Anesthesia (MOCA) exam.

Diplomates of the ABA were encouraged and incentivized to take the $2,100 exam early in the three-year eligibility window.

The exam was only offered twice a year. There were testing dates during a few weeks in the summer or a few weeks in the winter. You could take the exam up to three times to pass and maintain Board Certification.

In other words, if you fail, you could take it six months later, and if you fail again, you get one more shot. Waiting until the last opportunity would take away your ability to retake the exam before initial Board Certification could expire.

**Like A Dutiful Diplomate, I Signed Up for the MOC Exam.**

I really didn’t feel much like studying in the spring and
summer for the exam, so I passed on my first opportunity, signing up for the winter window.

I didn’t feel much like studying for this test at all, but I knew that I had better put the time in. Just like I’d rather work a bit longer and retire with more money than I think I’ll need, I’d rather go into an exam with more knowledge than required.

I also felt a need to study because the vast majority of the material on the exam had little relevance to my actual job. The exam covered all topics that an anesthesiologist might encounter, such as chronic pain (which I don’t manage), open heart surgery (which I haven’t seen in years), and brain surgery (don’t see that, either).

There were esoteric facts to memorize, and memorize I did. You know the age-old question of the trains traveling towards each other at different rates of speed? We have questions like that, only they come in the form of a gas in an E cylinder that is partially full and flowing at X liters per minute. To answer correctly, you need to commit to memory the volumes of full tanks of various gases, and whether or not they are stored in liquid or gaseous form.

In practice, I start with a tank at least half full and don’t travel very far. But I relearned all the numbers (had to know them for the initial written exam eight years earlier) and I memorized a whole bunch of other minutiae that might be only peripherally related to anesthesia. Facts that are taught to be tested, and serve little practical purpose for the vast majority of us practicing anesthesiologists.
For a couple months, I studied when I could. I took advantage of down time at work in the afternoons and evenings, and took myself to the library on many days off.

Uncoincidentally, the aggravation of studying for a really expensive and largely irrelevant exam led me to explore the possibility of retiring before having to take the dumb test again, a story I told in the aptly titled *Inception*.

I would be taking the exam in the second of six opportunities. As much as I wasn’t planning to fail, failure was a viable but expensive option since I’d have four more testing windows in which to retake the test.

Taking the test early seemed prudent.

About a month after the exam, I received wonderful news via mail. I *passed*!
I overstudied, but as a “bread and butter” anesthesiologist who hasn’t seen a teaching institution in years (except for the time I spent $1,500 for a day in the simulation center to meet additional MOCA requirements), I thought it was best to study up rather than take my chances.

This was the last of my MOCA requirements for the initial ten-year period. According to the letter accompanying the score report, “Upon successful completion of all MOCA requirements, you will be issued a certificate that will be valid for 10 years from the date of issuance.”

Two months after receiving that letter, I received more news. A MOCA redesign that the ABA had beta tested the prior year was to be implemented for all. The exam that I just passed was replaced with MOCA 2.0.

Thousands of fellow diplomates who certified the year I did or the year before who had not yet spent the $2,100 were now excused from having to take the exam.

Wait... wait. What?!!

That’s right. Doing the responsible thing, the thing that the ABA encouraged, turned out to be a huge waste of time and money.
I’m not so naive to believe that decision was made casually or abruptly. In other words, when I took the exam in January, the Board had to have known that changes were coming, but had not been finalized, or at least not announced. They gladly took my money and time, anyway. One last money grab before the next one.

The next money grab? Yes, I was told I would also be enrolled in the new computerized MOCA 2.0 program, and expected to pay $210 a year for it. There would be no “grandfathering in.” I would essentially receive no credit for the exam I took and of course, there was no getting back all the time I put into studying for and taking the exam.

I called the ABA and expressed my extreme displeasure. Others did, too. Eventually, the ABA actually backpedaled a bit and decided I wouldn’t be charged for MOCA 2.0 for ten years since we had just paid the equivalent of ten years worth of the program to take the exam. I would still be required to enroll in the program, and answer quiz questions on a quarterly basis.

That $2,100 test, by the way, was a 200 question multiple choice exam that took me 100 minutes to complete. That’s $1,260 per hour for those keeping score at home. I traveled five hours roundtrip to a computerized testing station to take it, too, as there were no computers offering the test any
closer to my home.

I strongly considered ignoring MOCA 2.0, and, as I’m planning to leave my job and possibly my anesthesia career in the summer of 2019, anyway. However, I feared I might be listed as “not participating in MOC” by the ABA and I don’t know the ramifications of such a designation with regards to credentialing and insurance reimbursements to my hospital.

Rather than risk a kerfluffle that could cause problems for my colleagues (if I were suddenly unable to work as a result), I registered for MOCA 2.0 late in 2018 and did my four quarters worth of questions over 4 days in the 4th quarter. It seemed pointless, but relatively painless.

The Problem With Maintenance of Certification

Before MOC was born, we physicians were already required to do Continuing Medical Education, subject to peer review, and many of us maintain many other time-limited certifications, such as ACLS, BLS, and PALS.

On the pages of KevinMD, you’ll find recent takes from anesthesiologist Karen Sibert, MD, who wrote The Real Dangers of Maintenance of Certification and What to Do About It. And from family doctor Linda Girgis, MD, If You are Not Opposed to MOC, the Time Is Now.

Pediatrician Meg Edison, MD has stood up to MOC, sharing her story in this post on KevinMD, and a number of other sordid tales at Rebel.MD.

It’s not that we’re not interested in keeping up our knowledge and skills, it’s just that MOC has not been shown to be an effective way to maintain skills or improve patient care. However, it has been shown to be a costly burden in terms of both time and money.
Speaking of money, a handful of physicians and journalists have been following the MOC money trail, and have uncovered some jarring facts and figures.

Kurt Eichenwald wrote the following eye-opening series in 2015 that I would strongly encourage you to read, whether you are a physician or one of our patients.

- The Ugly Civil War in Medicine
- A Certified Medical Controversy
- Medical Mystery: Making Sense of ABIM’s Financial Report
- To the Barricades! The Doctors’ Revolt Against ABIM is Succeeding!

Another gentleman who has championed exposing and undoing the MOC debacle is Dr. Westby Fisher, an electrophysiologist and cardiologist who writes frequently on the topic at Dr. Wes. A good place to start getting caught up are his annual recaps, along with the comments underneath.

- The Maintenance of Certification Controversy 2015: The Year in Review
- ABMS/ABIM MOC Controversy: 2016 Year-in-Review
- ABMS/ABIM MOC Controversy: 2017 Year-in-Review
- The Maintenance of Certification Controversy 2018: The Year in Review
- A post specific to anesthesia: Nickel and Dimed
- Video of Dr. Wes: Take Twenty-two Minutes to Learn About
Finally, PPA Requests Congressional Hearing, IRS Investigation of MOC Program complete with video.

It’s not that we’re not interested in keeping up our knowledge and skills, it’s just that MOC has not been shown to be an effective way to maintain skills or improve patient care.

Do I feel slighted? Yes, but I am far from alone. Dozens of doctors have been sharing their MOC stories, and tens of thousands of others feel slighted, too. The number of physicians currently being subjected to unproven costly MOC requirement likely measures in the hundreds of thousands.

I can’t reclaim the time I’ve spent on MOC, but I am encouraged by the pushback, the resolutions from state and national societies, and the bravery of the physicians who are challenging the status quo.

Are you finding the burdens of maintaining certification to be onerous? Have you been subjected to double jeopardy or shifting requirements like my anesthesia colleagues and me?
How To Overcome The 5 Barriers To Financial Success For High-Income Professionals

[I contributed seven articles to Forbes last November. This was the first one and a bit of an introduction to why personal finance aimed at high earners is worthwhile and unique. I don’t have to preach this to most of my regular readers who are well aware that financial blogs for docs are now a pretty good segment of the financial blogosphere.]

I have been assisting and educating high-income professionals like physicians, dentists, and attorneys with their finances since 2011 at The White Coat Investor. Although society, in general, believes that “doctors and lawyers are rich,” I have found that a significant percentage of them are nowhere near rich despite their high incomes and that even those who do become wealthy generally do not do so until mid to late career. While I fully acknowledge that it is far easier to
become wealthy on a high income than a low income, there are five significant impediments to building wealth as a high-income professional, and each must be overcome for financial success to be realized.

5 Barriers to Financial Success

# 1 A Late Start

High-income professionals start earning money significantly later than their high school or even college peers. A high school graduate may start earning at age 18, but a typical physician may not even begin her career until 30-35 years old. Four years of college, four years of medical school, and 3-7 years of post-graduate training is often combined with a master’s degree, a gap year, or other delay in the educational process. Although residents and fellows do receive a paycheck, it is often 1/4 or less of their value as a fully trained physician. Pharmacists, attorneys, and veterinarians may also have extended educational periods delaying the onset of earnings. Compound interest requires time and high-income professionals have less time for it to work. The only solution to this obstacle is to simply save more money. Instead of a typical guideline like saving 10-15% of income for retirement, doctors and lawyers should be saving 20% of their gross income for retirement.

# 2 High Educational Debt

The median debt at medical school graduation is now over $200,000, but that figure has a very wide distribution. It is not unusual to see a medical school cost of attendance of $80,000-$110,000 per year. Borrowing enough money to cover that entire expense can easily reach $400,000, not including any money borrowed for the undergraduate portion of the education. Graduate school loans are no longer subsidized and rates are often in the six to ten percent range. $400,000
compounded at seven percent during a three-year residency and a three-year fellowship can leave a doctor starting her career with a student loan burden of $600,000 and an income of just $200,000. Under a ten-year payment plan, making those payments could require dedicating 57% of net income to student loan payments for the first decade of a career. It is difficult to build wealth like that. Solutions to this obstacle involve choosing the least expensive school you can get into, living frugally during and after the education and training periods, taking advantage of federal income-driven repayment and forgiveness programs, and refinancing loans when appropriate.

# 3 High Taxes

Our progressive income tax system has no “memory” of prior years. It doesn’t matter that you are 35 years old and have never made a dime. If your income is high this year, you pay a high percentage of it in taxes. It is not unusual for a high-income professional to pay one-third of her gross income in payroll and income taxes, and that money cannot be used to build wealth. Solutions include taking advantage of all legal tax reduction techniques such as maximizing the use of tax-advantaged accounts like 401(k)s, Indirect (Backdoor) Roth IRAs, Health Savings Accounts and 529s.
# 4 Targeting by the Financial Services Industry

High-income professionals, particularly doctors, are often viewed by brokers, insurance agents, financial advisors and bankers as “whales” to be harpooned. When combined with a lack of financial literacy and business training and a taboo in the profession preventing the discussion of financial topics, it is no surprise to see doctors repeatedly fulfill their reputation as financial rubes. It is difficult to build wealth when an entire industry is focused on transferring your earnings from your pocket to theirs. The solution to this dilemma, of course, is basic financial education. This is beginning to occur in medical schools and residencies, but the primary burden still rests upon the individual professional. Doctors and lawyers who wish to eventually retire comfortably must either learn to manage money well themselves and/or hire someone to provide good advice at a fair price.

# 5 Societal Expectations

Chilling in the limo, picking out a hotel for WCICON20. Even living like a resident is temporary.
Doctors and lawyers face a surprising amount of social pressure to spend. This comes from friends, family, patients/clients, and even themselves. “You’re a rich doctor now, why are you still driving a Civic?” a young physician with a net worth of negative $400,000 may be told. The solution to this dilemma is to “live like a resident” for the first two to five years out of training. By earning like a physician and living like the average American household, a doctor can rapidly pay off student loans, save up a down payment on her dream home, and catch up to her college roommates with retirement savings.

High-income professionals can overcome these five obstacles to building wealth, but it will not happen automatically.

What do you think? Why aren’t doctors as rich as everyone thinks they are? What other barriers keep high-income earners from being financially successful? Comment below!