Should You Start a Group Practice Retirement Plan? – Podcast #114

Podcast #114 Show Notes: Should You Start a Group Practice Retirement Plan?

Should you start a retirement plan for your office? When is it worth starting? What things should you consider? A practice retirement plan can help with recruitment and retention of employees. But if your employees don't value that it may not be worth starting. Running a group practice retirement plan can be expensive for employers. Once you have employees it is no longer a do it yourself project. It is time to get a pro involved and help run the numbers and decide what plan is right for you. There are half a dozen ways you can structure a retirement plan for a practice. Other times the best thing to do is not have a plan and just invest in taxable accounts. We discuss when starting a group practice retirement plan might make sense for you in this episode and answer other listener

questions about buying homes, investing vs paying off the mortgage, how to figure out what expense ratio you are actually paying on investment funds, and more. Remember if you have questions you would like answered on the podcast, record them on speak pipe.

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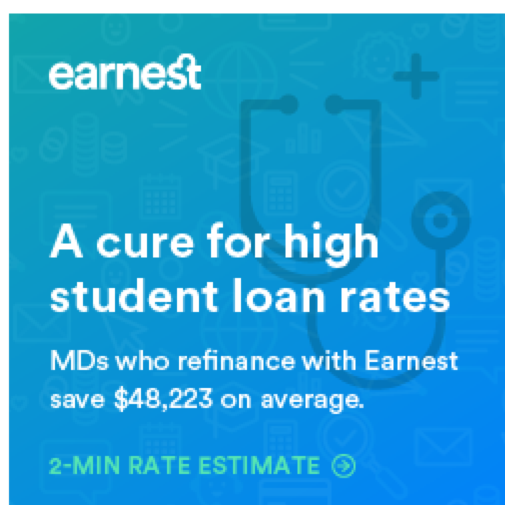

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Updates

Check out our updated Reddit page. We received a little bit of help recently from a redditor who has made our reddit page a lot more useful. There is the Wiki there now and additional

links that are helpful. We have put a lot more color and organization on the page, so be sure to check out the reddit page if you haven't visited it in awhile.

We have also updated our recommended financial advisor page. Over the years we have had a lot more financial advisors want to be added to that page so it has become much longer and a little bit less useful. We have reorganized it and put some premium sponsorships at the top where you can really get to know 10 of our financial advisor partners really well with videos. We will be bringing those 10 advisors on the podcast for a short Q and A as well, so you can really get a sense of who they are and how you can work with them before you call them up and set up your initial appointment. The page is a lot more standardized and useful. Every one of the advisors on that page, whether they have paid for a premium listing or a basic listing, have been vetted by me and I highly recommend any of those financial advisors listed. I think you'll enjoy the update page, either for yourself if you need a financial advisor, or if you just need some place where you can send your colleagues, friends, and family members and know that they are going to get good advice at a fair price.

Should You Start a Group Practice Retirement Plan?

The first financial advisor to join us on the podcast is Daniel Wrenne, CFP. He has been a partner with the White Coat Investor now for several years and I know him personally. He has come out and skied with me a couple of times here in Salt Lake. I tried to kill him the first time we went skiing, going off a cliff, but he negotiated that just fine. So if you're looking for a good skier as a financial advisor, he might be your guy!

His firm Wrenne Financial Planning has been around since 2014 and what makes them unique is that they have a really high concentration of young physician families. This has been really helpful because they have been able to really hone in on what sort of problems young physician families have and then cater solutions to that specific type of situation. They manage more student loans than assets with those young families. They have flexible services where they can set up an option for do it yourself types where they can give you advice and tools and hand it off to you. And then they also have a little bit more robust services where you can outsource more stuff to them if you are not really into doing it yourself. All of that is offered with a flat fee set up to steer away from conflicts of interest.

I brought Daniel on to answer a couple of listener questions with me. One listener asked,

> *"I'm a small practice owner with two docs and one PA. I'm interested in starting a retirement plan for the office, like a 401k or profit sharing plan of some kind. I assumed naturally this would allow me to save a significant amount of money, but after looking at the amount that I have to pay in fees to administer the plan according to regulations, I'm giving up 10% or more for everything that I can save right off the bat. This means that I will have to be in a significantly lower tax bracket in the future in order to recoup that kind of expense. The lack of a retirement plan right now does not seem to be a barrier to hiring quality employees, so I'm not sure if it would be better for me to just not offer a plan and save the money that I would otherwise have paid into it, into a taxable account and plan for retirement otherwise. I'm curious what your advice would*

be to a business owner who has to cover some of the expenses. A retirement plan seems like a great deal for employees, but I'm not so sure it's great for the practice owner."

Should you start a retirement plan for your office? When is it worth starting? What should this listener consider?

Daniel felt like if this doctor is not really interested in the additional recruitment and retention type benefits associated with the retirement plan, then no, it is not a good deal. The taxable route is typically better, especially if he's trying to do matching and safe harbor, which is typically going to be required for him to do what he needs to do in his share of the retirement plan. Those costs just add up. Michael Kitces wrote a great article where he dug into all the weeds of this kind of a thing, comparing taxable versus small business retirement plans. He digs into the math behind it. But yes, typically you are going to be better off, especially if he uses low cost, low turnover type investments in a taxable account because you're not going to really generate much tax anyway.

I think the key here is what this listener is saying about his employees. They don't value this. The problem with that is it costs you just as much money as giving them a higher salary. So if they don't value it, then they're not going to look at it as part of their salary, which is how you look at it as a business owner on the bottom line because it costs you just as much as it does to pay them more. So, when they don't value it, I think it's hard to do, but I've always said practice retirement plans, once you have employees, are no longer a do it yourself project. It's time to get a pro involved and help run the numbers and decide what plan is right for you. Sometimes it is a simple IRA, sometimes it is a SEP IRA, sometimes it is a 401k, there are half a dozen ways you can structure that for a practice. Sometimes it is not having a plan at all and just investing in taxable accounts. You can

still do a backdoor Roth IRA for you and your spouse each year. Maybe your spouse has a job and they have a 401k available. So there are other things you can do. The bottom line is, when you're paying just as much in fees and matching as you are actually saving in taxes for using this account, and the employees aren't valuing it, then forget it. Why bother?

Reader and Listener Q&A

Buying a Home as a Resident

One listener is thinking about buying a home as a resident and trying to justify it to me. It is in a low cost of living area, close to the wife's family, and where they want to settle down after residency anyway.

> *"Do you see any way that a house in the low 200s or even upper 190s would be something that you could endorse? We would appreciate your blessing and are willing to live like a resident for two to five years in that same house after residency. Is that something you could get behind and make a rare exception? I will have about $350,000 in student loan debt, of course. I know that's extremely significant and I'm not planning on doing public service loan forgiveness and plan on refinancing my loans with one of your people in the early part of residency."*

Since I've answered this question quite a few times I let Daniel answer it. He said they have an all-in cost calculator for home purchases. For a $200,000 home, if he is financing one hundred percent, it would be about $1,800 a month and that includes everything. A resident earns $55,000-$60,000/year. So take home is $3000-$3500/month. That leaves $1200-$1500 a month leftover after the mortgage payment and everything else that comes with it. Daniel would say that is not enough wiggle

room when you have $350,000 of student loans and a child on the way. When you buy a home, in that first year, a lot of expenses come up. When he bought his house, in the first year Daniel has two huge trees that they had to take down totally unexpectedly, costing $5000. That is where residents go into credit card debt. So Daniel (and I) recommend renting and really shoot for a lower-priced rental.

I know this listener has read my recommendation not to buy in residency, based on how he asked the question. He justifies it by saying he is going to stay in the house after residency. When you're going to be there for five to eight years, the numbers start changing a little bit as far as renting versus buying. You still have to keep it within something you can afford. You can't rent something that costs two grand any more than you can buy something that costs you two grand a month. But once you get out there to where you're holding on to it for a while, then sometimes it can make sense.

But the problem here is that attendings don't like living in resident houses. Once you're making $200,000 to $400,000 a year, it's really hard to get excited about living in the house you could actually afford as a resident. And so kudos to those who can do it for awhile, but I think planning to do it for years and years afterward in order for the decision to make sense is probably folly.

Daniel said he has seen a little trick with lenders who will commonly really emphasize the grace period on your student loans, and potentially even deferment or forbearance, that is going to help you close the loan better or faster or more efficiently. That is a terrible decision. Going into a grace period on your loans is typically unwise and it's just a bad start.
Especially for this listener who is looking to do family medicine, so presumably, he'll have a lower than average physician income. Maybe he is making $200,000 when he gets out and he owes $350,000 in student loans. He says he is not going

for public service loan forgiveness, but maybe he should be. Even if he doesn’t make all these tiny payments during residency, just that debt to income ratio, he’s still going to come out ahead doing public service loan forgiveness if he can get a job that qualifies for it. Maybe he ought to look at that a little bit more carefully.

Understanding the Expense Ratio for Your Retirement Fund

> *“In my retirement plan there are several expense ratios that are listed, and I’m not sure which one is the quote unquote true expense ratio. For example, there is an annual report gross expense ratio of 0.53 and an annual report net expense ratio of 0.37, and a prospectus net expense ratio of 0.88.”*

I asked Daniel how he helps people figure out the expense ratio they are paying on a fund. He said net is a good word to look for. It’s 0.88 on the specific fund she was asking about, but his suggestion would be try to look to other sources. A lot of times the stuff you get through your retirement plan provider is very difficult to interpret. So he will go to sites like Morningstar or a brokerage firm website like TD Ameritrade or E-trade or something like that, and look up the ticker there. If it is has a ticker, the five letter abbreviation, you can look it up anywhere and a lot of times they’ll just show you the real expense ratio.

What people have to realize is that, especially with a lot of these loaded mutual funds, there are multiple share classes. They all have the same fund name, but it is a different share class with a different ticker and a different expense ratio. Sometimes some of those share classes have a load even inside

a 401k. So you really have to get to the bottom of that particular fund to see what you're really paying. What you'll sometimes find out is that you're paying a 5% load plus a 1.5% expense ratio. That is obviously a terrible fund to be using, especially if you have better options in the 401k.

Rebalancing Your Portfolio

This same listener is going to move the funds out of a JP Morgan Smart 2050 Plan and into Vanguard funds. The particular JP Morgan Fund she was investing in has eight different share classes so it is a classic example of what I was just saying about having commissions and other fees built into it. So moving the money to Vanguard funds is a fantastic move to lower her fees, as long as she can set up a systematic method for keeping them balanced in the way she wants. She wants to do a three fund portfolio, which would comprise of 90% stocks, 55% of that would be in the 500 index admiral, 35% in the total international stock index, and then the remaining 10% in the total bond market index. She wanted to ask about how to reallocate or rebalance her funds.

> *"When should I reallocate? Am I reallocating all existing money or only new contributions? Also should the stock price influence my decision?"*

I asked Daniel to explain to listeners how you should rebalance a portfolio.

When you move money into the funds initially you do so in the percentages you are planning. Then for new money, you set it to go to that target as well. But over time, the S&P 500 does worse or better than the international index or the bond index. They're all kind of moving differently and you get a little bit out of whack and slowly over time it gets a little bit more out of whack. So every so often you're just kind of reshuffling it to get back to that original target, which was

the 55, 35, 10 for her situation.

For his clients, they change everything when they rebalance and not just new contributions. Most 401k platforms make you do it separately. You have to change your existing balance and then separately you have to change your new contribution targets and typically you want to do both because that is going to keep it closer to the target over time. Daniel looks at clients' portfolios quarterly and rebalances or if it gets more than 20% out of variants at any time they will rebalance.

Pay Off the Mortgage or Invest?

This week we received the classic question again. Pay off debt or invest? This listener is maxing out all their retirement accounts and has a good emergency fund saved. She wonders if she should pay off the mortgage, at 3.38%, or investing in her children's 529 accounts or in a taxable account.

What is the highest purpose for your money? It depends on your goals. For example, if you want to be mortgage free in five years, if that's one of your goals, you need to make sure you're putting enough against that mortgage every month to actually have it paid off in five years. You need to calculate out how much that is and put that much toward the mortgage.

Same thing with the 529. If your goal is to have $50,000 or $100,000 or $200,000 in a 529 when your kid turns 18, well, how much do you need to be putting in there every year to reach that goal? If you're putting in enough there to meet those goals, then you invest the rest in taxable or you spend it. You need to be saving enough to reach your goals and then anything extra, if you want to save it, you have to save it in a taxable account. Anything that you don't want to save, you can go ahead and spend. In this particular situation though, she has $500,000 in mortgage debt and $200,000 income. That

is quite a bit of debt. So I might be a little more inclined to work on paying that down just because I'd be uncomfortable with the amount of debt there than if I had a $500,000 income and a $200,000 debt.

Buying and Selling Funds in a UTMA Account

> *"Does buying and selling within a UTMA account trigger a taxable event more similar to my brokerage accounts or does buying and selling not cause any taxable consequences, more similar to my tax advantaged accounts and only generates taxes when they are withdrawn by my child at age 18?"*

What is a UTMA account? Is a Uniform Transfer to Minors Account, or in some states it's called a UGMA, Uniform Gift to Minors Account. UTMA accounts are far more like your taxable account than a Roth account. It is a taxable account for your kid. Any dividends that are paid out in there are taxable to the child. In fact, you can tax loss harvest and tax gain harvest in a UGMA account. However, it's a little bit different from your taxable account in that the kid tax can apply. Basically the first thousand dollars that comes out in income a year is tax free to the kid and the next $1000 or so, it might be a little more than that, is taxed at their tax brackets, which is obviously very low.

But beyond that it gets taxed at your tax brackets. So unless you're investing in a very tax efficient investment in those accounts, you don't want to have more than say $100,000 in there. Because beyond that, all the gains are going to be taxed at your limit anyway. It's not really a tax play beyond there and in reality it's not that much of a tax play anyway. It's just a way to give money to your kids. Remember when they turn 18 or 21 depending on the state, that is their money in a UGMA account, they can do whatever they want with it. It's not like a 529 where you retain control over it. A 529 is your

account, but a UGMA account belongs to your child. In fact, even if you want to spend it while they're teenagers, it has to be spent on their behalf, you can't just take the money out and buy a sailboat with it.

What Type of Bond is Optimal?

> *"There has been a lot of discussion about the recommended ratio of bonds to stocks. However, there has been very little conversation on what actual type of bonds would be optimal in terms of tax efficiency for high income earners. Personally, I have the Vanguard Intermediate-Term Tax-Exempt Fund. Is there a value in diversifying among other bonds in a taxable account? If there is, what would you recommend? Is there a value within short term or long term bonds that are tax exempt as well?"*

This particular caller is using the intermediate tax exempt fund. That's what I use in my taxable account. If I'm buying muni bonds, I use the Vanguard Intermediate Tax-Exempt Fund, but if all your bonds are in taxable, should they really all be in muni bonds? Well, I'm pretty comfortable with that. I think if you have a relatively small portion of your portfolio in bonds, if you're a portfolio like mine is only 20% bonds, and you have to have them in a taxable account, I think I could live with 20% of my portfolio in muni bonds. Yes, there's some risk of default there, very slightly higher than treasuries. Maybe if a bunch of these municipalities start defaulting on their pensions the rate could go up higher.

But in reality, these are much more like treasury bonds than they are corporate bonds. They're pretty safe and I wouldn't feel bad if you have a pretty significant portion of your bond portfolio in municipal bonds. But if you want some diversification, you can get some other types of bonds in taxable. You can just put regular old taxable bonds, a total bond market account. Obviously that's not very tax efficient

to have there, but it does give you a lot of diversification. One thing some people do is they use Ibonds. Now you're limited in how much of these you can buy a year. I think if you're married and you buy some with your tax return, maybe you can put 20 grand a year into Ibonds, but these are inflation linked government savings bonds that have some significant advantages being held in a taxable account.

You might try holding some of those in your taxable account, but you can hold any type of bond in there. It's just not super tax efficient. What most people do is put their bonds in a tax protected account. If they're going to hold tips, they tend to put those in tax protected accounts. If they have a total bond market fund or something like that, they usually put that in a tax protected account. When rates are higher it makes a lot of sense to have your bonds in a tax protected accounts. At the historical lows we had a couple of years ago, there were lots of people where bonds in taxable accounts was actually the right thing to do, but since rates have gone up somewhat, that's not the right thing for a very large percentage of people. Most people if they have the option, will hold their bonds in a tax protected account like a 401k or even a Roth IRA.

What Counts Toward the Pro Rata Rule?

A reader asked what accounts count toward the pro rata rule for backdoor Roth IRAs. SEP-IRAs, simple IRAs, traditional IRAs, rollover IRAs, self-directed traditional IRA, and self directed SEP-IRA all count. Remember anytime you're doing backdoor Roth IRAs, you have to zero out your IRAs by the end of the calendar year. All of these type of accounts would need to be zero on December 31st. If they are not you're going to have a pro rata calculation done on that money and it's going to kind of screw things up. It's not terrible if it happens for a year or two, but the bottom line is you're ending up paying taxes that you should be trying to avoid paying. The

only accounts that don't count are Roth IRAs and an inherited IRA. And of course your 401Ks and 403Bs and those kinds of accounts don't count toward that pro rata rule with the backdoor Roth IRA.

Leasing Cars

A member of the Facebook group asked if it was better to lease their car under their medical practice or their own name, tax wise.

I'm not a big fan of leasing. That's one of the most expensive ways to own a car. You're essentially renting a car for three years. If you think about it, if you're going to be renting a car, you have to pay at least as much as the car costs to run plus enough for that company to cover all its expenses and make a profit. So, of course, it would be natural that it's going to cost more than it would just to own that car. It's only logical. And so in general, I don't recommend you lease cars at all. Now, if you're going to lease it, if I can't talk you out of leasing a car, and you can lease it through your practice and write it off, then sure, of course, that's going to be better than leasing it in your own name. But, in general, don't lease your cars. Come on, cars just are not that expensive. A doctor should be able to buy a car. Reliable transportation can be had for $5,000. Surely you can afford that on a doctor's salary, especially if you own a practice.

Using an Insurance Broker

> *"We need to find a policy for our new home. We used a broker for our last home and I'm wondering if we are spending money unnecessarily for that. Are the brokers commissions tacked onto the premium? Is there really an advantage to using a broker versus shopping on your own other than convenience?"*

The truth about brokers and insurance is it typically does not

cost you more to use a broker. Now the insurance company does pay the broker a commission out of the premiums that you pay, but they're basically just saving that commission when you go directly to them, it doesn't somehow end up in your pocket. Now maybe if everybody quit using brokers and insurance agents, they would lower their premiums. But the bottom line is you're basically already paying to get that advice and that assistance from a broker, so you might as well get it. That applies to homeowners insurance, auto insurance, health insurance, and disability insurance.

You have to buy this from an agent. You might as well use the agent to get more information about it. We use a broker for our health insurance. We buy health insurance on the open market. Just like you buy groceries, just like you pay rent, you go and you buy health insurance. You're likely going to find a better deal and have less hassle with a broker.

Are Refinanced Student Loans Dischargeable on Death?

A member of the Facebook group asked about whether refinanced student loans are dischargeable on death. I recently wrote a blog post about this. Most of the private companies will discharge your loans in the event of death and many of them will do it in the event of disability as well.

Remember it is not like those coverages that the federal direct student loan program is offering are awesome. Even if they forgive your student loans because you died, they're still going to send you a 1099. That forgiveness is taxable. And so the whole thing doesn't get forgiven. Just a portion of it does because you're going to owe taxes, or rather your estate is going to owe taxes, on the rest. As far as their disability forgiveness, you have be disabled for five years before they do that. I don't know what you're going to do in

the meantime, just let it run I guess. But, if you somehow become undisabled in that time period, you're going to have a whole bunch of extra interest to pay. So these are not awesome benefits you're getting through the direct loan program.

Most of these private lenders are offering basically the same terms. Just read the fine print so you know which one is offering which. Or take a look at that blog post I recently did that goes through them one by one and lists out what their policies are in the event of death or disability. But the truth of the matter is that you are going to save a ton more money refinancing and you'll save more on interest than you'll pay in that extra life insurance and disability insurance that you'll buy to cover that. If you take a look at it, what does it really cost to buy enough life and disability insurance to cover a $200,000 debt for five years? Well, it costs about $1000 total. That's what it costs, to buy life insurance and disability insurance to cover that student loan in the event it isn't forgiven.

What are you going to save if you can refinance from 6% to 4% on a $200,000 loan? All over the course of a five year loan, you're going to save about $11,000 in interest. So, buy a little more insurance, it'll cost you 1000 bucks and then save on the interest. That'll save you $11,000. Really it's a no brainer there, so be careful with that.

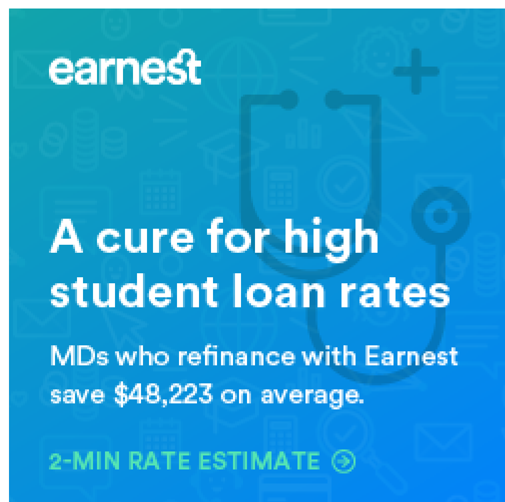
Ending

I hope you find these show notes helpful. Remember to check out the updated Reddit page and the updated recommended financial advisor page.

Full Transcription

Intro: This is The White Coat Investor Podcast where we help those who wear the white coat get a fair shake on Wall Street.

We’ve been helping doctors and other high income professionals stop doing dumb things with their money since 2011. Here’s your host, Dr. Jim Dahle.



Dr. Jim Dahle: This is White Coat Investor Podcast number 114. When is it worth starting a practice retirement plan. This podcast is sponsored by Earnest, save money on your student loans by refinancing with Earnest. Choose custom terms to fit your budget like picking your exact monthly payment or selecting fixed and variable rates. Earnest precision pricing matches your custom term with a custom interest rate saving you even more money when refinancing, you won’t be passed off to a third party servicer nor penalized for making payments early. Your family is always protected with loan forgiveness in cases of death and dismemberment. Get $500 when you sign a loan with Earnest, using the links found in the podcast show notes. The special White Coat Investor deal gives you $500 back in addition to awesome low interest rates and the ability to set your terms on the loan. They can lend in the district of Columbia and all states except Delaware, Kentucky and Nevada.

Dr. Jim Dahle: Although they can only offer fixed rates in Alaska, Illinois, Minnesota, New Hampshire, Ohio, Tennessee and Texas. Check Earnest today for lower student loan rates and get those things paid off. Thanks so much for what you do. If you’re on your way to work, your way home from work, you’re

working out whatever you’re doing and listening to this podcast, I want you to know that I appreciate the work you are doing. Also, check out our updated Reddit page. We’ve got a little bit of help recently from a Redditor who has made our Reddit page a lot more useful. There’s the Wiki there. There’s some additional links that are helpful. You can add flair to your posts, was puts a lot more color and organization on the page, so be sure to check out the Reddit if you haven’t yet. If you haven’t been there in a while, check it out again.

Dr. Jim Dahle: Another new addition we have on the website is our new financial advisor page. Over the years we’ve had a lot more financial advisors, sponsors, and so as time has gone on, the pages become well longer and a little bit less useful. It just became unwieldy and so what we did recently over the last couple of months is reorganized it and we put some premium sponsorships at the top where you can really get to know 10 of our financial advisor partners really well. We have videos there. We’re going to have links to them being on the podcast so you can really get a sense of who they are and how you can work with them before you call them up and set up your initial appointment. So check that out. It’s a lot more standardized. It’s a lot more useful and I think you’ll enjoy that either for yourself if you need a financial advisor, or if you just need some place where you know you can send your colleagues and your friends and even your family members and know that they’re going to get good advice at a fair price.

Dr. Jim Dahle: In fact, as part of that, I’m going to start bringing these featured partners on to the podcast from time to time and today we’re going to have Daniel Wrenne come on the podcast. Am excited to have him, so we’re going to go into that interview now. You’ll learn a little bit more about him and then we’re going to answer a few of your questions together. All right. Our guest on the podcast today is Daniel Wrenne, CFP. He’s a financial planner, he’s been a partner with the White Coat Investor now for several years and in

fact, I have known Daniel from some other instances as well. He's come out and skied with me a couple of times here in Salt Lake and it turns out he's a very accomplished skier. I tried to kill him the first time we went skiing, we went off a cliff. There is solitude up big Cottonwood Canyon and he negotiated it just fine. So if you're looking for a good skier as a financial advisor, he might be your guy, but usually, that's not on people's lists of requirements. At any rate, welcome to the show Daniel.

Daniel Wrenne: Thanks. Yeah, thanks for having me. I appreciate it.

Dr. Jim Dahle: And, it was good to come out and see you last year as well in Kentucky.

Daniel Wrenne: Yeah. You have got to check out the horse track.

Dr. Jim Dahle: Yeah, we went and checked out the horse track, so this is great. He really wined and dined me there. We went and got breakfast at the horse track, which was an excellent breakfast and a very blue collar crowd. It was a fun time.

Daniel Wrenne: We liked fancy places out here.

Dr. Jim Dahle: Yeah, it was pretty fancy. But the nice thing about it is when you look at how Daniel manages his money, he's going to be just as careful with yours as he is with his. And so that's actually a good thing in my book when I see somebody that's relatively frugal.

Daniel Wrenne: Yeah. Cruising in my 2003 Avalon.

Dr. Jim Dahle: That's right. Well, speaking of financial planning, why did you decide to become a financial planner?

Daniel Wrenne: Well, I'd say like in the early days, so I started in 2005 but initially I was kind of drawn to like the idea of just generally helping people with money. I was kind

of into finance. That's what I took, my degree was in finance. So I kind of liked that idea of the whole idea of helping people with money. I'm also kind of a technical guy. Like I'm pretty analytical and so financial planning is, you can kind of get into the weeds a little bit as well. But what really I think has kept me in it and I've really enjoyed the most, is seeing people realize the benefits of good financial planning. So actually helping people through that whole process and seeing them kind of get to that point where they're not worried about their finances or they're on track for their goals. That's what I would say has really kept me in it.

Dr. Jim Dahle: So is there a bad part? I mean, what's the worst part of being a financial planner?

Daniel Wrenne: The tough part is when people don't execute.

Dr. Jim Dahle: Why is that tough for you? I mean, I know why that's tough for them, but why is that tough for you?

Daniel Wrenne: Well, let's see. You put all the work in, to put in a plan together. And if somebody doesn't do any of it, it's kind of like, well, what's the point of this?

Dr. Jim Dahle: You feel like you're wasting your time, sometimes…

Daniel Wrenne: It's kind of like if you're seeing a patient and they don't do a single thing, you say that, I'm sure that can be a little frustrating. So that doesn't happen very often, fortunately. But it does happen.

Dr. Jim Dahle: Well, I mean with either job I think there's a bit of getting buy-in and motivating and trying to get somebody to change their behavior in a lot of ways. So. Okay. Tell us a little bit about your firm and why it's unique. I mean your firm is Wrenne financial, Wrenne Financial Planning. You can find that at Wrenne Financial, that's W-R-E-N-N-E financial.com. Tell us about your firm.

Daniel Wrenne: So we've been around since 2014, my transition from my other firm, started this firm. So I would say what makes us unique is we have a really high concentration of young physician families in particular, which has been really helpful because we've kind of been able to really hone in on what sort of problems they have and then, cater solutions to that specific type of situation. Also, what's been kind of nice is developing over time. I came up in the industry where it's kind of like an eat what you kill. Like every advisor has their own little business entity. That's just kind of a lot of how the industry is set up. But what we've set our business up is to be more like a team. So there's two CFPs now. Myself and Jen Quire. We have some support staff as well, but we've been developing it and building it to be more of like a team sort of environment where there's not, it's not just your clients, my clients, is more of like everybody works with everybody to add more value.

Daniel Wrenne: We have very flexible services compared to the norm. We've set it up to kind of have like an option for do yourself are types where we can kind of give them advice, give them the tools and hand it off to them. And then we've also got a little bit more robust services where we can, they can kind of like outsource more stuff to us if they're not really in to doing it themselves. And then all of that we offer kind of a flat fee set up where we can incorporate all of that. We don't, we try to steer away from conflicts of interest when we can. So that's, I feel like a less conflicted model.

Dr. Jim Dahle: Now you do a lot of student loan advice as well because you've got these young physician families.

Daniel Wrenne: Yeah, we're, we manage more student loans than we do assets. That's kind of our, we've got a lot of student loans that we're helping people out with.

Dr. Jim Dahle: So fiduciary fee only, no commissions, transparent pricing?

Daniel Wrenne: Yeah.

Dr. Jim Dahle: Those things you forget to mention, but they’re really rare in the financial advisory world. Now they’re not rare on my list of recommended advisors, but they are rare in the general financial advisor world.

Daniel Wrenne: Yeah.

Dr. Jim Dahle: Sometimes we gloss over that kind of stuff.

Daniel Wrenne: Yeah. Your list is a good list, but if we’re talking about the industry as a whole, yes, those are big time differentiators.

Dr. Jim Dahle: Yeah. All right, well let’s get to some listener questions here. Our first questions on the speak pipe, this is coming from Tyler, who’s a graduating medical student. Let’s listen to his question here.

Tyler: Hi Doctor Dahle. I’m a relatively new listener and supporter of the White Coat Investor, but I’m a rising fourth year osteopathic medical student and I’m considering family medicine for a residency. I’m mostly in Texas. My wife and I are really serious about moving back to South Texas or a place of low cost of living and we’re about a year out from potentially buying a house and I know you’re very against residents buying a home, but assuming we get residency down there in South Texas, we’re planning to live low cost of living and we want to stay there after residency in our minds, it’s close to her family. It’s very well thought out in that sense. Do you see any way that a house in the low 200s or even upper 190s would be something that you could endorse, would appreciate your blessing, willing to live like a resident for two to five years in that same house after residency?

Tyler: Is that something you could get behind and make a rare exception? I will have about $350,000 in student loan debt, of course. I know that’s extremely significant. And my wife, we

are expecting our first child this September, which would be in the fourth year of medical school and she has her masters in business, hasn't decided when she would go back to working yet. So we are relocating from Tennessee to Texas. Additionally, I'm not planning on doing public service loan forgiveness and plan on refinancing my loans with one of your people in the early part of residency.

Dr. Jim Dahle: Okay. So basically he's buying a house, or thinking about buying a house during residency and trying to justify it. What do you think, what would you tell him if he's asking you this?

Daniel Wrenne: Yeah, so I give him credit for reaching out for advice first. That's a big deal. So we have like an all in cost calculator for home purchases for $200,000 home. If he's financing a hundred percent I made a few other assumptions, but like our number would be, it'd be about $1,800 a month, like all in, and that includes everything. So what's a resident's take home pay going to be? Jim, what do you think like?

Dr. Jim Dahle: I mean, I think they're probably averaging 60,000 now, 55, 60,000.

Daniel Wrenne: So like let's say take.

Dr. Jim Dali: So take home, 3000, 3500 something like that?

Daniel Wrenne: That's what I was thinking, so that's like what 15, 1200, 1500 a month leftover after the mortgage payment and everything else that comes with it. So that's part of the challenge is that is not very much. I would say not enough wiggle room when you have $350,000 of student loans and a kiddo on the way, that's just not going to be enough wiggle room. And what happens. You buy the house. When I bought my house, the first year, actually, we had like two big huge trees that we had to take down totally unexpectedly. And I mean it's like five grand and all of a sudden, so that's where

residents go into credit card debt. So in short, I would say that's, I would steer clear of that and not do that. And instead like rent and really shoot for a lower priced rental as well. It's just not going to be enough wiggle room.

Dr. Jim Dahle: Yeah. I mean, I'm not a huge fan of owning during residency period. Now you can tell he's read that recommendation, based on how he asked the question. And so he justifies it by saying, Hey, I'm going to stay in the house after residency. Well, when you're going to be there for five, six, eight years. Yeah, the numbers start changing a little bit as far as renting versus buying. Now still you got to keep it within something you can afford. You can't rent something that costs two grand any more than you can buy something that costs you two grand a month. But once you get out there to where you're holding on to it for a while, then sometimes it can make sense.

Dr. Jim Dahle: But the problem here is that attendings don't like living in resident houses. Once you're making $200,000 a year or $250,000 a year or $400,000 a year, it's really hard to get excited about living in the house you could actually afford as a resident. And so kudos to those who can do it for awhile, but I think planning to do it for years and years afterward in order for the decision to make sense is probably folly.

Daniel Wrenne: Yeah, there's also a little trick I've seen with lenders that's probably important to mention is they commonly will really emphasize like grace period on your student loans and potentially even like deferment or forbearance, just that's going to help you close the loan better or faster or more efficiently. And that's like a terrible decision. Like going into grace period on your loans is typically unwise and it's just a bad start.

Dr. Jim Dahle: Especially for Tyler here. I mean, Tyler's looking to do in family medicines, so presumably, he'll have a

lower than average physician income. Maybe he’s making $200,000 when he gets out and he owes $350,000 in student loans. So he says he’s not going for public service loan forgiveness, but maybe he should be, right. Even if he doesn’t make all these tiny payments during residency, just that debt to income ratio, he’s still going to come out ahead and doing public service loan forgiveness if he can get a job that qualifies for it. And so maybe he ought to look at that a little bit more carefully. I’m sure there’s plenty of places in South Texas for a family doc that are in where you’d be directly employed by a 501C3 so whether it’s a community health center or what, that’s probably something to look at a little bit more carefully with the debt to income ratio like that.

Daniel Wrenne: Yeah, I agree.

Dr. Jim Dahle: All right. Let’s take the next question. This one comes from Dustin.

Dustin: I’m a small practice owner with two docs and one PA. I’m interested in starting a retirement plan for the office, like a 401k or profit sharing plan of some kind. I assumed naturally this would allow me to save a significant amount of money, but after looking at the amount that I have to pay in fees to administer the plan according to regulations, I’m giving up 10% or more for everything that I can save right off the bat. This means that’ll have to be in a significantly lower tax bracket in the future in order to recoup that kind of expense. The lack of a retirement plan right now does not seem to be a barrier to hiring quality employees, so I’m not sure if it would be better for me to just not offer a plan and save the money that I would otherwise have paid into it, into a taxable account and plan for retirement, otherwise. I’m curious what your advice would be to a business owner who has to cover some of the expenses. A retirement plan seems like a great deal for employees, but I’m not so sure it’s great for the practice owner. Thanks for the advice.

Dr. Jim Dahle: Okay, so basically Dustin's asking here, should I start a retirement plan for my office? What do you think? What would you tell him to do if he came in and started talking about those fees and the match you'd have to pay for his employees? Would you say go for it. Don't go for it. What should he consider?

Daniel Wrenne: Yeah, that's another great question that most people don't ask, which kudos to him for asking it. I would say if he's not really interested in the additional recruitment, retention type benefits associated with the retirement plan, then no, I don't think it's a good deal. I think the taxable route is typically better, especially if he's trying to do like matching and safe harbor, which is typically going to be required for him to do what he needs to do in his share of the retirement plan. Those costs just add up. So Michael Kitces is a, you know Michael stuff, right? Jim.

Dr. Jim Dahle: Oh sure, absolutely.

Daniel Wrenne: He wrote a great article where he'd like dug into all the weeds of this kind of a thing, like comparing taxable versus small business retirement plan. And if your listeners interested in kind of digging in the weeds, I would strongly recommend that sort of article. I don't know if you can link to it in the show notes or whatnot, but…

Dr. Jim Dahle: Yeah, I'm sure we can find that and put it in the show notes.

Daniel Wrenne: But it's a great kind of dig into the math behind it. But yes, typically it's going to be better off, especially if he uses low cost, low turnover type investments. Because you're not going to really generate much tax anyway.

Dr. Jim Dahle: Yeah. I think the key here's what he's saying about his employees, it's like my employees don't value this. And the problem with that is it costs you just as much money

as giving them a higher salary.

Daniel Wrenne: Right.

Dr. Jim Dahle: And so if they don’t value it, then they’re not going to look at it as part of their salary, which is how you look at it as a business owner on the bottom line because it costs you just as much as it does to pay them more. And so, when they don’t value it, I think it’s hard to do, but I’ve always said practice retirement plan, once you have employees, this is no longer a do it yourself project. It’s time to get a pro involved and help run the numbers and decide what plan is right for you. Sometimes it’s a simple IRA, sometimes it’s a sep IRA, sometimes it’s a 401k, there’s half a dozen ways you can structure that for a practice. Sometimes it is not having a plan and just investing in taxable. I mean you can still do backdoor Roth IRA for you and your spouse each year.

Dr. Jim Dahle: Maybe your spouse has a job and they have a 401k available. So there’s other things you can do. And the bottom line is, when you’re paying just as much in fees and match as you are actually saving in taxes for using this account. And if the employees aren’t valuing it, then forget it. Why bother?

Daniel Wrenne: Yeah, no, definitely not worth it. But it’s definitely a very, very complicated analysis. There’s a million different ways to structure like you said, so that’s a good point too.

Dr. Jim Dahle: Yeah. Okay, so let’s take our last question we’re going to do together. This one comes from someone who calls herself Clueless in Connecticut and she’s actually got two speak pipes with their questions on here. Let’s listen to both of them all together and then we’ll go through her actual questions here.

Clueless: Hi Dr. Dahle, you answered one of my questions before on the podcast and I figured I would turn to you for

additional advice. I currently work as an employed physician at a health center that offers 401k retirement plans to all of its employees. Our employer does offer a match 100% of the first 3% invested and then 50% of the next 2% invested. When I was first hired shortly after residency, I was pretty unfamiliar with investments and didn't know what an index fund was. I began contributing the Max allowed and thus far the majority of the funds are in the JP Morgan smart retirement plan. The 2050 plan class A to be exact. There are several expense ratios that are listed, and I'm not sure which one is the quote unquote true expense ratio. For example, there's an annual report gross expense ratio of 0.53, an annual report net expense ratio of 0.37, and a prospectus net expense ratio of 0.88.

Clueless: The second part of my question is that I'm learning more about investing, I decided to transfer the money from my rollover IRA from residency into my current 401k, but for this rollover I have it attributed to the vanguard 500 index Admiral Fund. Over the past few years, my job's 401k has added two additional vanguard funds, the total bond market index and that vanguard total international stock index. I'm considering reallocating the funds that are in the JP Morgan Smart 2050 plan and doing my own three fund portfolio, which would comprise of 90% stocks. I'm considering 55% of that would be in the admiral, the 500 index admiral, 35% and the total international stock index, and then the remaining 10% in the total bond market index.

Clueless: I'm curious to know your thoughts on the strategy. I'm 36 years old and I have at least 20 if not 30 more years left of practice. Is this too aggressive and how and when should I reallocate? Am I reallocating all existing money or only new contributions? Also, should the stock price influence my decision? For example, the total international stock index price is $27 and 18 cents per share, whereas the vanguard 500 index admiral is $258 and 20 cents per share. Thank you so

much for listening. I really appreciate all the advice you've given thus far.

Dr. Jim Dahle: Okay, so our first one is she's trying to figure out what expense ratio she's actually paying on this JP Morgan 2050 fund. How do you help people figure that out?

Daniel Wrenne: Yeah, I think she was, specifically the one she was referring to that was correct was the net expense ratio. So, net is a good word to look for. It's 0.88 on the specific fund she was asking about, but I think my suggestion would be to try to look to other sources. A lot of times the stuff you get through your retirement plan provider is very difficult to interpret. And so I, even I do this myself as I'll go to like Morningstar or a brokerage firm website like, at TD Ameritrade or E trade or something like that. And then look up the ticker there. If it's got a ticker, if it's got the five word or five letter abbreviation, you can look it up anywhere and a lot of times they'll just show you the real expense ratio.

Dr. Jim Dahle: Yeah. What people have to realize is that, especially with a lot of these, I hate to say advisor sold because they're not really advisors. Broker sold funds is maybe the proper term, these loaded mutual funds. There are multiple share classes. There's A and C and B and J and N and, it's all has the same fund name, but it's a different share class with a different ticker and a different expense ratio. And sometimes some of those share classes have a load even inside a 401k. And so you really have to get to the bottom of that particular fund to see what you're really paying. And what you'll sometimes find out is that you're paying a 5% load plus a 1.5% expense ratio. And that's obviously a terrible fund to be using, especially if you've got better options in the 401k, which it sounds like this doc does, which brings us to her second questions here, should I move my money out of this JP Morgan, target retirement fund into something else. And what would you talk to her about if she was asking that to you?

Daniel Wrenne: All day long. So that particular JP Morgan Fund has eight different share classes so that like you were just saying, that’s a classic example and the one she was referring to, it has some commissions and stuff like that built into it. So the alternative funds, she was asking about they’re just plain vanilla vanguard funds and they’re going to be way lower cost funds. So that’s a fantastic move is to, as long as she can set up a, kind of a systematic method, a plan for keeping them balanced to the way she needs to, then that’s a definitely a great move because she’s going to be able to cut her expense ratio, like 80% or something like that, a ton as a result of doing that.

Dr. Jim Dahle: Yeah. So she asked is it too aggressive to go into a three fund portfolio? She’s talking about going out of a 2050 target retirement fund, which has got to be 90% stock or something like that, anyway. I haven’t looked at this specific asset allocation in this fund.
Daniel Wrenne: It’s almost the exact same.

Dr. Jim Dahle: Yeah. I don’t think it’s too aggressive necessarily to go into a three fund portfolio. So it’s about the same thing.

Daniel Wrenne: No, I mean.

Dr. Jim Dahle: You’re just reducing your expenses.

Daniel Wrenne: Right. That particular fund, the JP Morgan Fund. It was like almost to the percent the exact same.

Dr. Jim Dahle: Yeah. It also sounds like she doesn’t understand exactly how rebalancing works. Can you explain to the listeners how you should rebalance a portfolio?

Daniel Wrenne: Yeah. So if she was, I think she was saying targeting like 55% in the S and P Fund, 35% international, 10% bond, so that would be like your target allocation. And so you, initially, when you decide that’s the target, then you

say, okay, let’s move 100% of my JP Morgan Fund into that new given percentage for the existing balance. And then for new money you set it to go to that target as well. But what happens is over time, the S and P 500 does worse or better than the international index or the bond index. They’re all kind of moving differently and so you get a little bit out of whacks slowly over time it gets a little bit more out of whack. So every so often what rebalancing is, is you’re just kind of reshuffling it to get back to that original target, which was the 55, 35, 10 for her situation.

Dr. Jim Dahle: So you’re doing it for all of the existing money. You’re not doing it just for your new contributions. You’re changing everything when you rebalance.

Daniel Wrenne: Yeah. And most 401k platforms, they make you do it separately, like you have to change your existing balance and then separately you have to change your new contribution targets and typically you want to do both because that’s going to keep it closer to the target over time.

Dr. Jim Dahle: Right. And so what do you do? At your firm for rebalancing? Do you do it based on time? You rebalance everybody’s portfolio once a year or do you use a band based method when they’re really out of whack, you rebalance the whole thing or how do you guys do it?

Daniel Wrenne: It’s kind of like both. It’s a, quarterly, we look at it and then every, if it goes, or I guess quarterly or if it gets more than 20% out of variants. So it’s a pretty big, a pretty wide band, but it’s one or the other.

Dr. Jim Dahle: So it could be triggered more frequently than quarterly in a time period like 2008?

Daniel Wrenne: Yeah, it’s basically like quarterly or if the markets gets crazy.

Dr. Jim Dahle: Yeah. Okay. Her last question was about the

stock price and she seemed to wonder if it mattered if an ETF was priced at 50 bucks or 150 bucks. Does that make any sort of a difference?

Daniel Wrenne: No.

Dr. Jim Dahle: I actually liked the lower prices because you're less likely to have 70 bucks sitting in cash when you're done buying ETFs. If you got to buy an ETF on the market, then you've got less money sitting in cash if the price is lower. But for a mutual fund that you're just putting all your money in it, doesn't matter at all. Either I own more shares at a higher price or more shares at a lower price or fewer shares at a higher price. But it's really the exact same thing. So I agree and doesn't matter.

Dr. Jim Dahle: Alright, well those are the questions I had for you. I appreciate you coming on the podcast today and answering questions with me. If you're interested in hiring Daniel, you can find him @wrennefinancial.com. That's Wrenne, W-R-E-N-N-E and obviously, you can also find him on my recommended financial advisors page. I think he's right at the top there.
Daniel Wrenne: Yeah. Thanks for having me, Jim. I'm coming to Utah two times this winter skiing, so I'll have to hit you up. Then I look forward to hitting the slopes.

Dr. Jim Dahle: Sweet.

Daniel Wrenne: And I don't know you gave me a little…

Dr. Jim Dahle: I don't have to kill you this time.

Daniel Wrenne: You gave me a little bit too much props on my skiing skills. I don't know if I'm quite to that level.

Dr. Jim Dahle: Probably you can follow me around and not die while I'm exploring at the resort. I'd say that's pretty good. So-

Daniel Wrenne: Yeah, I did my best.

Dr. Jim Dahle: All right, we'll see, we'll catch you next time.

Daniel Wrenne: Yup, thanks.

Dr. Jim Dahle: All right. That was great having Daniel on. I think he's great advisor. He's young enough too. He's still going to be around for your career, so, but he's still been doing this plenty of years to have the experience you need from someone, but he's not going to retire on you in the next few years either. So if you're looking for someone's going to take as much care of your money as you will. I think he's a great choice. Let's get into some questions here without him here. I've got a few more speak pipe questions to cover today. Our next question comes from anonymous. This came over the speak pipe.

Anonymous: Hi Jim. First, thank you very much for what you do and I have benefited from your White Coat Investor tremendously. Thank you for that. I'm a primary care physician in my early forties. Lives on the West Coast. My income is about $200,000 a year. My husband and I have saved about 900,000 retirement but also have a half million home loan to pay. My question is why is I maximize my retirement accounts including 401K, 457B, Roth IRA and for me and my husband and the HSA account, what should I do with extra cash I have? I do have a good amount emergency saved. My home loan is a 30 year home loan. Fixed interest rate at 3.38%. I have putting $1,000 to the principal monthly. Should I put to the actual cash to 529s to support my children's education? My kids are seven years old and 11 years old. Or try to put more money into my home loan, pay the off quicker or invest in a taxable account and I will like to get your thoughts on those questions. Thank you so much.

Dr. Jim Dahle: This is a West Coast doc who is basically

asking, should I pay off my mortgage or should I invest in a taxable account or should I put it in 529 after I max out retirement accounts? This is the classic question, right? Everybody’s got this question, what should I do with my money? What’s the highest purpose for it? And the truth of matter is, it depends on your goals. For example, if you want to be mortgage free in five years, if that’s one of your goals, well you need to make sure you’re putting enough against that mortgage every month to actually have it paid off in five years. And so you need to calculate out how much that is and put that much toward the mortgage.

Dr. Jim Dahle: Same thing with the 529. If your goal is to have $50,000 or $100,000 or $200,000 in a 529 when your kid turns 18, well, how much do you need to be putting in there every year to reach that goal? And if you’re putting in enough there to meet those goals, then you invest the rest in taxable or you spend it. Go to Europe or something. I don’t care. But the point is you need to be saving enough to reach your goals and then anything extra, if you want to save it, you have to save it in a taxable account. And anything that you don’t want to save, you can go ahead and spend. One thing I do think about that situation though, if you’ve got $500,000 in debt and you’ve got a $200,000 income, that’s quite a bit of debt. And so I might be a little more inclined to work on paying that down just because I’d be uncomfortable with the amount of debt there than if I had a $500,000 income and a $200,000 debt.

Dr. Jim Dahle: All right. Our next question comes from Lynn.

Lynn: Hi Jim. I have a question about my kids. UTMA accounts. More specifically. I have a question regarding buying and selling funds within these accounts. Now, does buying and selling within these accounts trigger a taxable events more similar to my textbook brokerage accounts or does buying and selling not cause any taxable consequences? More similar to my tax advantage accounts and only generate taxes when they are

withdrawn by my child at age 18, thanks.

Dr. Jim Dahle: Yeah, so basically, how does a UTMA account work, right? Does buying and selling trigger taxable events? Well, in reality, this is far more like your taxable account than it is a Roth account. What is a UTMA account? Is a Uniform Transfer to Minors Account, or in some states it's called a UGMA, Uniform Gift to Minors Account, and what that is, is a taxable account for your kid. That's what it is. It's a taxable account. And so any dividends that are paid out in there, any short term, longterm capital gains that come out of that are taxable to the kid. In fact, you can tax loss harvest and tax gain harvest in a UGMA account. However, it's a little bit different from your taxable account in that the kitty tax can apply. Basically the first, what is it about a thousand dollars that comes out in income a year is tax free to the kid and the next $1000 or so it might be a little more than that. I'd have to look up the exact limits for this year, is taxed at their tax brackets, which are obviously very low.

Dr. Jim Dahle: But beyond that it gets tax to your tax brackets. So unless you're investing in a very tax efficient investment in those accounts, you don't want to have more than, say $100,000 in there. Because beyond that, all the gains are going to be taxed at your limit anyway. It's not really a tax play beyond there and in reality it's not that much of a tax play anyway. It's just a way to give money to your kids. Because remember when they turn 18 or 21 depending on the state, that is their money in a UGMA account, they can do whatever they want with it. They want to blow it all on cocaine and hookers, that's up to them. It's not like a 529 where you retain control over. A 529 is your account, but a UGMA account belongs to your child. In fact, even if you want to spend it while they're teenagers or whatever, it has to be spent on their behalf, you can't just take the money out and buy a sailboat with it.

Dr. Jim Dahle: All right. The next question comes from

anonymous.

Anonymous: Hi Jim. There has been a lot of discussion about the recommended ratio of bonds to stocks. However, there has been very little conversation on what actual type of bonds would be optimal in terms of tax efficiency for high income earners. Personally, I have the Vanguard Intermediate-Term Tax-Exempt Fund. Is there a value in diversifying among other bonds in a taxable account? If there is, what would you recommend? Is there a value within short term or long term bonds that are tax exempt as well? Anyway, thank you so much for your weekly podcast. It's been a wonderful resource for financial knowledge. Bye!

Dr. Jim Dahle: Basically here we're asking what type of bonds should I use for tax efficiency for high income earners? This particular caller is using the intermediate tax exempt fund. That's what I use in my taxable account. If I'm buying muni bonds, I use the Vanguard Intermediate Tax-Exempt Fund, but if all your bonds are in taxable, should they really all be in muni bonds? Well, I'm pretty comfortable with that. I think if you have got a relatively small portion of your portfolio in bonds, if you're a portfolio like mine is only 20% bonds and you have to have them in a taxable account, I think I could live with 20% of my portfolio in muni bonds. Yes, there's some risk of default there is very slightly higher than treasuries. Maybe if a bunch of these municipalities start defaulting on their pensions and stuff, the rate could go up higher.

Dr. Jim Dahle: But in reality, these are much more like treasury bonds than they are corporate bonds. They're pretty safe and so I wouldn't feel bad if you have a pretty significant portion of your bond portfolio in municipal bonds, but if you want some diversification, you can get some other types of bonds in taxable. You can just put regular old taxable bonds, a total bond market account. Obviously, that's not very tax efficient to have there, but it does give you a lot of diversification. One thing some people do is they use

Ibonds. Now you're limited in how much of these you can buy a year. I think if you're married and you buy some with your tax return, I think maybe you can put 20 grand a year into Ibonds, but these are inflation linked government savings bonds that have some significant advantages being held in a taxable account.

Dr. Jim Dahle: And so you might try holding some of those in your taxable account, but you can hold any type of bond in there. It's just not super tax efficient. What most people do is they put their bonds in a tax protected account. If they're going to hold tips, they tend to put those in tax protected accounts. If they've got a total bond market fund or something like that, they usually put that in a tax protected account. When rates are higher and it makes a lot of sense to have your bonds in a tax protected accounts. At the historical laws we had a couple of years ago, there were lots of people where bonds and taxable was actually the right thing to do, but since rates have gone up somewhat, that's not the right thing for a very large percentage of people. And so most people if they have the option, will hold their bonds in a tax protected account like a 401k or even a Roth IRA.

Dr. Jim Dahle: Okay. Next question. This one comes from Twitter basically asking SEP, simple and traditional IRAs count towards the pro rata rule. What about a self directed IRA? It's not explicit and form 86 or six. Would it be considered traditional? Yes it would, right. A self directed IRA is just a traditional IRA, so that counts in the pro rata calculation on your backdoor Roth IRA. Remember anytime you're doing backdoor Roth IRAs, you have to zero out your IRAs by the end of the calendar year. So on December 31st, the balance in your SEP-IRAs, traditional IRAs and rollover IRAs has to be $0. If it's not, you're going to have a pro rata calculation done on that money and it's going to kind of screw things up. It's not terrible if it happens for a year or two, but the bottom line is you're ending up paying taxes. You should be

trying to avoid paying really.

Dr. Jim Dahle: But yeah, that's SEP-IRAs, simple IRAs, traditional IRAs, rollover IRAs, self-directed traditional IRA, self directed SEP-IRA. All those ones you have to have cleaned out. The only ones that you really don't are Roth IRAs and an inherited IRA does not count either. And of course your 401Ks and 403Bs and those kinds of accounts don't count toward that pro rata rule with the backdoor Roth IRA.

Dr. Jim Dahle: All right. Let's take some questions out of the Facebook group. Is it better to lease my car under my medical practice or my own name? Tax-wise specifically. Okay. Well, first of all, I'm not a big fan of leasing period. That's one of the most expensive ways to own a car. You're essentially renting a car for three years, right? And if you think about it, if you're going to be renting a car, you have to pay at least as much as the car costs to run plus enough for that company to cover all its expenses and for that company to make a profit.

Dr. Jim Dahle: So, of course, it would be natural that it's going to cost more than it would just to own that car, right? It's only logical. And so in general, I don't recommend you lease cars at all. Now, if you're going to lease it, if I can't talk you out of leasing a car, and you can lease it through your practice and write it off, then sure, of course, that's going to be better than leasing it in your own name. Right. But, in general, don't lease your cars. Come on, cars just are not that expensive. A doctor should be able to buy a car. Reliable transportation can be had for $5,000. Surely you can afford that on a doctor's salary, especially if you own a practice. I mean, come on.

Dr. Jim Dahle: All right, next question also from the Facebook group. Talk to me about homeowners insurance. We need to find a policy for our new home. We used a broker for our last home and I'm wondering if we are spending money unnecessarily for

that. Are the brokers commissions tacked onto the premium? Is there really an advantage to using a broker versus shopping on your own other than convenience? Well, here's the truth about brokers and insurance. It typically does not cost you more to use a broker. Now the insurance company does pay the broker a commission out of the premiums that you pay, but they're basically just saving that commission when you go directly to them, it doesn't somehow end up in your pocket. Now maybe if everybody quit using brokers and insurance agents, they would lower their premiums. But the bottom line is you're basically already paying to get that advice and that assistance from a broker, so you might as well get it. And that applies to homeowners insurance. That applies to auto insurance. That applies to disability insurance, right?

Dr. Jim Dahle: You have to buy this from an agent. You might as well use the agent to get more information about it. We use a broker for our health insurance. We buy health insurance on the open market. So it always cracks me up when people are paranoid about health insurance. How do I get health insurance? Well, you buy it, like anything else. Just like you buy groceries, just like you pay rent. You go and you buy health insurance. Yes, it's expensive stuff. Cracks me up about Cobra too, right? Everyone's… All anybody knows about Cobra is it is super expensive, right? Well, no, it's not super expensive. It's exactly the same price. It's just the employer isn't paying for it anymore. You're paying for the whole thing. And so, if you need Cobra, go ahead and use Cobra. But certainly, don't feel bad about using an insurance broker if you need insurance.

Dr. Jim Dahle: You're likely going to find a better deal and have less hassle. So, I'm a big fan of that. All right. Let's talk about the next question. This one also from the Facebook group. I've seen several people mention that refinancing student loans eliminates a dischargeable on death clause and to factor that into your life insurance policy, which I did

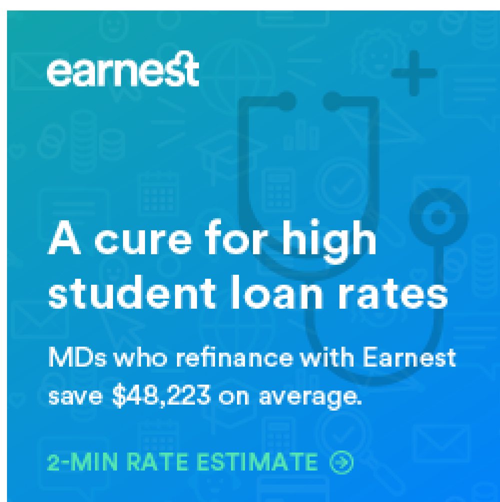
do. I just refinanced with Laurel Road and they do discharge the debt and the event of death or total disability. It looks like SoFi does as well. Okay. Well, that's not really a question, but it certainly is true. In fact, I've written a blog posts that are running a little bit. Maybe I'll even run before this podcast does, but the truth of the matter is that most of these private companies will discharge your loans in the event of death and many of them will do it in the event of disability as well.

Dr. Jim Dahle: It's not like those coverages that the federal direct student loan program is offering are awesome, right? I mean, even if they forgive your student loans because you died, they're still going to send you a 1099. That forgiveness is taxable. And so the whole thing doesn't get forgiven. Just a portion of it does because you're going to owe taxes or rather your estate is going to owe taxes on the arrest. As far as their disability, forgiveness, you have be disabled for five years before they do that, 60 months you have to be disabled, right? And so I don't know what you're going to do in the meantime, just let it run I guess. But, if you somehow become undisabled in that time period, you're going to have a whole bunch of extra interest to pay. So these are not awesome benefits you're getting through the direct loan program.

Dr. Jim Dahle: And most of these private lenders are offering basically the same terms. Just read the fine prints so you know which one is offering which. Or take a look at that blog post I recently did that goes through them one by one and list out what their policies are in the event of death or disability. But the truth of the matter, is that you are going to save a ton more money refinancing and you'll save more on interest than you'll pay in that extra life insurance and disability insurance that you'll buy to cover that, right? If you take a look at it, what does it really cost to buy enough life and disability insurance to cover a $200,000 debt for five years? Well, it costs about $1000 total. That's what it

costs, to buy life insurance and disability insurance to cover that student loan in the event it isn't forgiven.

Dr. Jim Dahle: And what are you going to save if you can refinance from 6% to 4% on a $200,000 loan? All over the course of a five year loan, you're going to save about $11,000 in interest. So, buy a little more insurance, it'll cost you 1000 bucks and then save on the interest. That'll save you $11,000. Really it's a no brainer there, so be careful with that. All right, make sure you check out the subreddit. It's got all kinds of new stuff on it. And if you like Reddit, boy, we could, show you some more discussion in there and some more knowledgeable people answering questions. It's a great resource. And also check out our new financial advisors page. There's lots of great videos up there. You can get to know our financial advisor partners a little bit better and really find who you're comfortable referring your friends and family to or if you're looking for an advisor, check it out as well.



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