Some Financial Pearls For My P.A.

I love to teach personal finance stuff to people who are super motivated to learn it. It is really fun to watch the lights go on and to save/make someone thousands of dollars with a few nice pearls. I had a slow shift the other day. So my P.A. and I sat there for eight hours, only seeing about five patients a piece during the shift. That gave us a lot of time to chat. She asked about the website. That led to a few financial questions. That led to some hardcore WCI-style financial planning. It became very clear very quickly that this particular P.A. had The X Factor and all she needed was a little extra information and to be pointed in the right direction. I thought there were a few pearls that came out of the conversation that would be worth sharing, especially since I don't write often for P.A.s and other white-coat wearers with similar incomes. Some of these "pearls" will seem very basic for long-term readers of this blog, but if you've never heard them before, they're new to you!

Use The Future Value Function To Project Your Retirement Date

One of the best things to do when you're first getting serious about your finances is to figure out your "number," i.e. how much is “enough.” Until you’re about to retire, the amount you want to spend in retirement is tough to pin down, but it’s a good idea to make some reasonable estimates to give you some idea where you sit. So I asked my P.A. when she wanted to retire. She said, “I don’t know, but I’d like to be able to in 13 years at age 50.” I then asked, “If you had a paid-off home, how much income each year would you need in order to live?” After some thought she said, “$36,000.” Of course, I instantly felt guilty because I’m such a spendthrift, but this wasn’t about me so I got over it. So we talked about the 4% rule and then multiplied $36K by 25 to get her number- $900K. We then took what she was saving (which was quite good actually), what she had already saved, a reasonable after-inflation rate of return (I usually use 5%) and plotted it out using the Future Value Function. (Technically, I used the NPER function, but it’s all the same.) What she discovered was that despite having quite a good savings rate, she wasn’t going to be financially independent at 50. But she’d probably make it by 53. She thought that sounded pretty good too. But it’s good to know. Just having that information will often push you to make more and save more and actually reach your original goal.

Your Bank Isn’t Paying You Anything

This particular P.A. is a great saver. She paid off her substantial student loans within a couple of years of getting out of school and was saving a good chunk of money each month. She noted she occasionally listened to Dave Ramsey, but felt like she had outgrown that since she was debt-free and saving big chunks of money. What was bothering her, however, was that her money wasn’t making any money.

> *WCI – “Where is your money sitting right now?”*

> *P.A. – “In the local credit union.”*

> *WCI – “What is it earning?”*

P.A. – "Oh, I think 1%."

WCI – "No, it's not. Let's look it up."

Sure enough, as expected, her credit union savings account was paying 0.1% on a six figure amount. News Flash! Your local bank or credit union doesn't pay any significant interest. So we talked about online savings accounts. I keep my short term savings and emergency fund at Ally Bank, which currently pays 1%. Sure, 1% isn't great, but if she had her money there for the last year she would be $900 richer. Beats a kick in the teeth.

401(k)s Are Great

Here's the worst part. All that money was in a taxable account and she wasn't maxing out the 401(k) nor using a Roth IRA. Now, she has an awesome employer (me and my partners) and a great 401(k). The 401(k) is full of low-cost Vanguard index funds, has low additional fees, and offers an fantastic match (150% of the first 6% of your salary put in there if you're a full-time employee.) She's a smart lady, so she was getting her full match. But she was also saving a bunch of money outside of her 401(k) without maxing it out. That doesn't make much sense. Like other people I talk to all the time, she didn't even know how to log in to the 401(k) website, much less what her money is invested in. Lucky for her, all the options in our 401(k) are good and the default option ensures she has some sort of reasonable allocation. But she has no idea what it is, and she recognized that was a problem. I also pointed out that the default option involves an additional fee she didn't have to pay if she could manage her asset allocation herself.

Tax-deferred for Peak Earnings Years

Another question she had was about how she was putting money into the account. She wasn't sure what to do, and knew the match was tax-deferred (as it always is,) so she put her contribution into the Roth 401(k) option despite the fact that she was in her peak earnings years and really hadn't saved all that much into retirement accounts. Now, Roth 401(k)s are great, but when you're in your peak earnings years and your current tax-deferred account is tiny now and won't be more than a million at the time of retirement, it's pretty much a no-brainer to go tax-deferred in your 401(k), so she's going to change that (making sure she increases how much she is putting in to the account for the fact that a tax-deferred dollar is worth less than a tax-free one.)

Pay For Health Care Pre-Tax

She was saving up some money (again in that 0.1% savings account) for an upcoming delivery, about $4K. Now, we provide nice health insurance-a High-Deductible Health Plan coupled with a Health Reimbursement Account (HRA) for our employees. That basically turns the HDHP into a low deductible health plan. We essentially pay most of the deductible out of the HRA. But her share of the delivery was still going to end up being something like $4K, which she was going to pay with this money she had saved up. So we talked about HSAs. At first I thought she qualified to use one, since some HRAs don't disqualify you from an HSA. But ours does, since it is not a "limited purpose HRA." Too bad, that would have been a sweet $4K deduction for her.

Read Some Good Books

We also discussed the importance of having personal finance and investing as a hobby and of reading some good books. There is no more profitable hobby out there than becoming your own financial planner and managing your own investments. Not only do you get to avoid having to pay for expensive financial advice, but you simply pay more attention to and optimize the aspects of personal finance that are under your control whether you're using a professional or not (like savings rate.) I made sure she had a copy of If You Can and told her to take a look at my latest favorite book, How to Think About Money by Jonathan Clements. Then I showed her my list of recommended books.

P.A.s, NPs, optometrists, physical therapists, and occupational therapists are all white coat investors who can benefit from solid financial planning and investing. They generally don't command the higher incomes that physicians do, which makes optimizing the income they do have critical. There is definitely less room for waste. However, their advantage is less of their money goes to taxes, they start earning sooner, and they generally come out of school with much less debt. Take advantages of these aspects to get a jumpstart on your doctor friends and co-workers.

What do you think? What advice do you give to P.A.s and others with similar incomes? In what ways is the financial life of a P.A. different from that of a doc? How would your life be different if you didn’t have the income to max out all tax-protected account options? Comment below!