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How to Retire. . .by LDRT

Physician Wellness

# 7 Financial Mistakes Physicians Make

April 29, 2017

LesterTheInvestor@gmail.com

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1. Not saving enough
2. Poor debt management
3. Not being tax savvy
4. Inadequate insurance
5. Bad investments
6. Divorce
7. Not keeping track

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## 1. Not Saving Enough

✧ Physicians know how to earn

✧ But they don't know how to save

✧ Delayed gratification means:

✖ You have waited for so long that you just can't wait any longer

✖ Frivolous spending

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## 1. Not Saving Enough

**Planning** is the **most** important step  
to achieving the goal:

If you don't have a goal,  
you won't achieve it

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## Planning Pays

- ✧ People who plan and save—Maximize compound interest
- ✧ For every decade a person delays saving, the required investment amount nearly quadruples
  - ✧ 35-yo saves \$ 219 a month → \$500,000
  - ✧ 55-yo saves \$2,421 a month → at age 65

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## 1. Not Saving Enough

You must save  $>10\%$  of your income

**High earning**

=

**High standard of living**

=

**High expenses**

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## 1. Not Saving Enough

- ✧ You start earning 10–15 years later than everyone else
  - ✖ Years in medical school
  - ✖ Years in residency
  - ✖ Years in fellowship
- ✧ Less time to accumulate/compound assets

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## Compound Interest

- ✧ Imagine you have two magic pennies, and every day they multiply by two
- ✧ How much money you would have in 31 days if the magic pennies doubled every day?





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## Power of Compounding

\$1,000 compounded at various rates of return over time

Years	4%	6%	8%	10%
10	1,481	1,791	2,159	2,594
20	2,191	3,207	4,661	6,728
30	3,243	5,743	10,063	17,449

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## Best Places to Put Money

### ✦ **BEST:**

✕ Any plan with an employer match

### ✦ **NEXT BEST:**

✕ Any pre-tax or tax deductible plan

### ✦ **STILL WORTHWHILE:**

✕ A nondeductible but tax deferred plan

» IRA, Roth IRA, Single K, Roth 401(k)

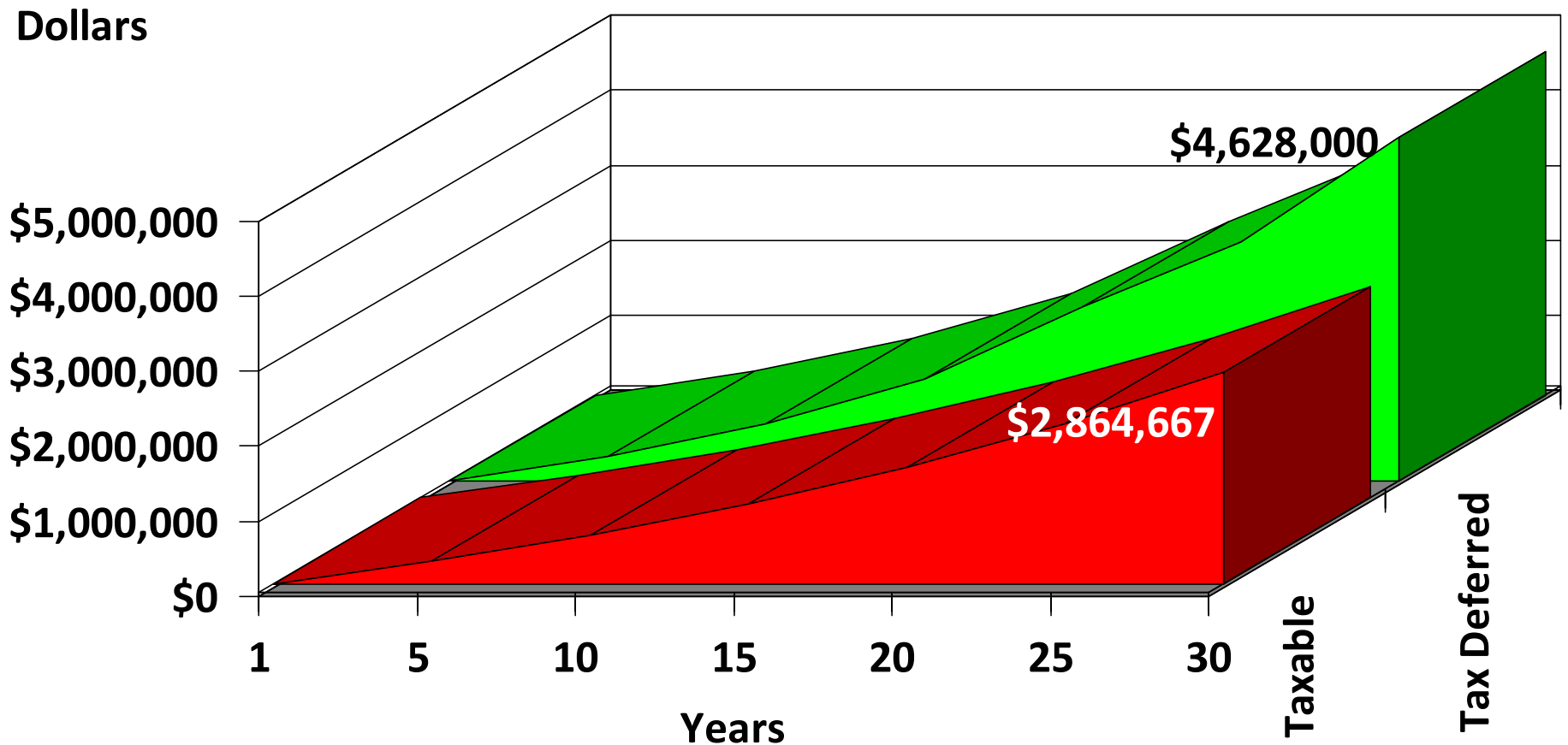
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## Tax Deferred vs Taxable



30 years with \$53,000 invested per year at 6% return; 35% Federal tax; 9% State tax

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## 401(k) Participation Matters

Those <b>NOT</b> in 401(k) plan	Men		Women	
	In	Not In	In	Not In
Have lower average balances	\$772,427	\$519,428	\$604,965	\$359,929
Have comparable tenure to those in the plan	14 yrs.	13.7 yrs.	12.2 yrs.	11.6 yrs.
Are less likely to use managed accounts	24.3%	16%	23.9%	19.2%
Are much more likely to be married	55%	81%	52%	85%

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## New Hires Behavior (n=853)

	Total Partner Population		Recent Eligible Hires*	
	Male (3,216) 62%	Female (2,002) 38%	Male (441) 52%	Female (412) 48%
% Saving 100% in Keogh	85%	85%	88%	84%
Saving <b>0%</b> in Keogh	4%	3%	6%	8%
<b>NOT</b> Participating in 401(k)	15%	18%	23%	24%
Using Roth	9%	8%	15%	16%

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## Key Risk Factors

- ✧ Longevity
- ✧ Inflation rates
- ✧ Withdrawals
- ✧ Healthcare costs
- ✧ Asset allocation

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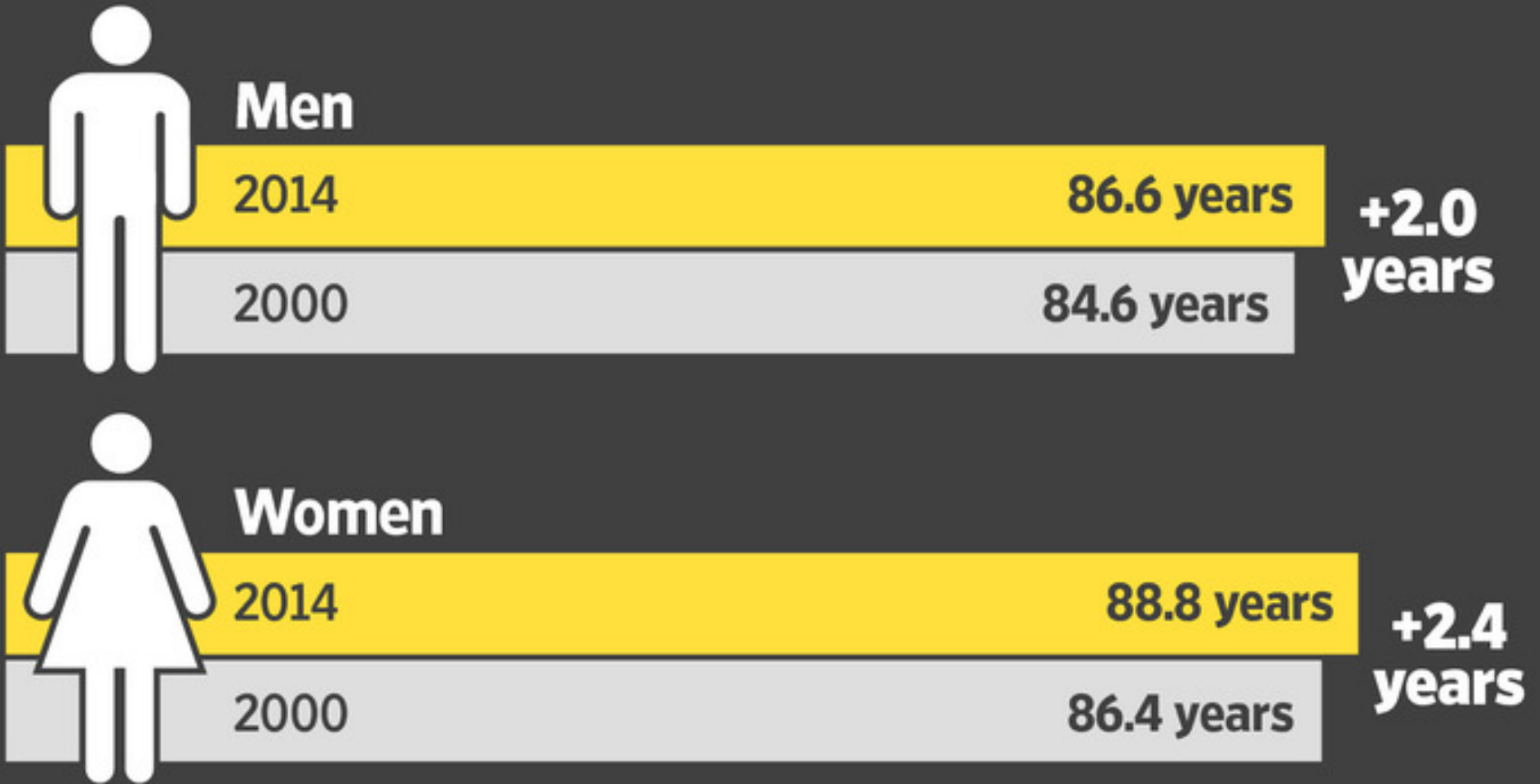
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Life Expectancy:  
65 year old living to...

Change in life expectancy for 65-year-olds in the U.S.



Source: Society of Actuaries

The Wall Street Journal

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## Difference in Decades

65-year-old man in...

	Length of Retirement:	% 65+ Working:	Avg. Social Security Benefit:
1950 	8 years	45%	*\$280
2010 	17 years	22%	\$1470

SOURCE: *Stanford Center on Longevity; Social Security Administration*  
\* adjusted for inflation



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## Inflation

✧ Income = \$100,000 with inflation at 3.1%

✧ average of the past 25 years

✧ Retiring after 25 years: you would need \$215,000

✧ If you wanted to keep purchasing power throughout retirement, at 35 years you would need \$290,000

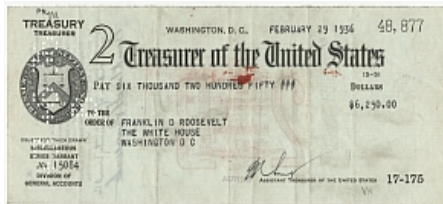
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## Risk of Inflation



	Salary	House	Car	Bread	Stamp	College
1957	\$5,087	\$12,300	\$2,200	\$0.19	\$0.05	\$1,571
1977	12,686	48,000	3,800	0.28	0.13	3,776
2017	51,759	270,200	31,252	2.53	0.47	42,419
2027	117,000	627,000	59,629	4.21	n/a	93,250

1. U.S. Dept. of Commerce, Bureau of Economic Analysis, 2016 2. Motor Trend, "Average New-Vehicle MSRP Tops \$28,000 for First Time," July 2004. 3. Fidelity Investments, 2016, based on 3% inflation over 25 years from 2004 prices. 4. Actual price data from U.S. Dept. of Labor, Bureau of Labor Statistics, 2016. 5. U.S. Census Bureau 2010. Median family income from 1947 to 2011. Data for 2004 and 2029 projected from 2001 median income based on 3% inflation.

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## Health Care Risk

- ✧ Health care costs rise up to 60% in retirement
- ✧ 65-year-old couple: need \$190,000 for medical expenses during retirement
- ✧ One in two retirees admitted to a nursing home
- ✧ Annual long-term care costs
  - ✧ \$35,900 in Southeast
  - ✧ \$105,500 in Northeast

A magnifying glass with a dark wooden handle and a silver rim, focusing on a quote.

“On average, 20 percent of retiree income will be spent on health care.”

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## NUMBERS TO LIVE BY

- 95 Age to plan for retirement (yes, 30 years!)
- 80 % of pre-retirement income you need in retirement
- 6 % Average annual rate of return
- 3 % Maximum withdrawal from your savings each year
- 3 % Annual inflation rate

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1. Not saving enough
- 2. Poor debt management**
3. Not being tax savvy
4. Inadequate insurance
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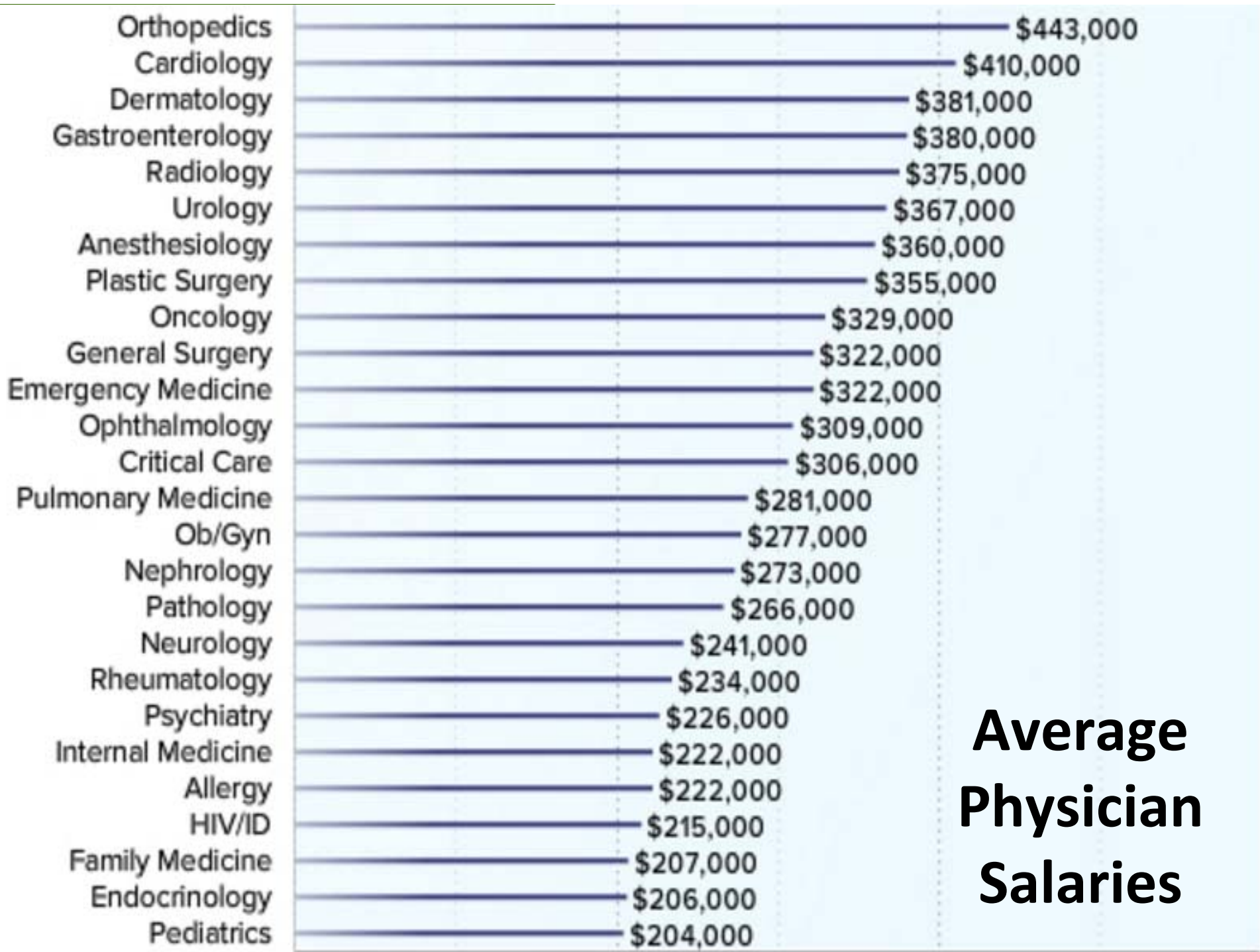
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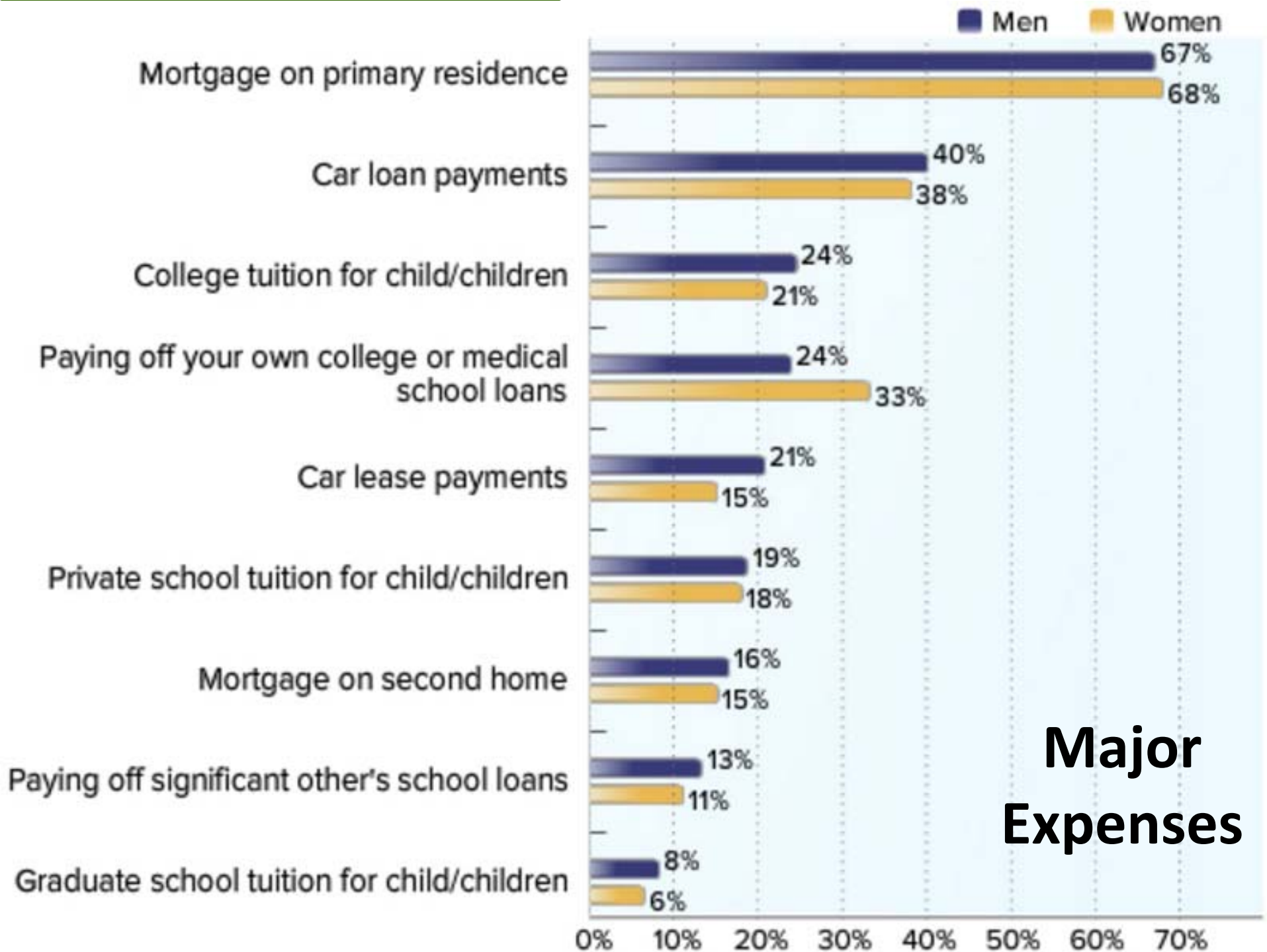
## 2. Poor Debt Management

- ✧ College and medical school loans
  - ✕ Average medical school debt = \$183,000
- ✧ Practice costs (not a factor for SCPMG)
- ✧ High balance mortgages on primary residence

**Leverage = High Interest Burden**



# Average Physician Salaries



## Major Expenses



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## Medical School Loans

- ✧ How much are the loans?
- ✧ Is the interest rate fixed/variable; linked to prime?
- ✧ Is it deductible?
- ✧ What are the terms of repayment (interest accrual, prepayment penalty, length of time)?
- ✧ It may be better to consolidate (NEVER for convenience)?
- ✧ Can any part of the loan be forgiven?
- ✧ Pay interest while in residency?

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## Medical School Loans

- ✧ If you have 30 years to pay back
- ✧ If the loan interest rate is fixed
- ✧ If the loan interest rate is  $<4\%$ 
  - ✧ Present inflation is  $2.5\%$
  - ✧ Tax is about  $33\%$
- ✧ **Then pay it out over the full term!**

[www.hellowallet.com/student-loans-calculator/](http://www.hellowallet.com/student-loans-calculator/)

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## Coping with Financial Crises

### Emergency fund

- ✧ Generally considered 3–6 months worth of living expenses (any payments)
- ✧ Needs to be in “cash” vehicle
  - ✗ Easily available
  - ✗ No penalties
  - ✗ Money market, savings, checking

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Changes are Inevitable

- ✧ Marriage
- ✧ Raising children
- ✧ Changing jobs
- ✧ Divorce
- ✧ Disability
- ✧ Death

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A quick budget

**50 – 20 – 30**

✧ 50% Essentials

✕ Groceries, mortgage, utilities

✧ 20% Savings

✕ Emergency, retirement, targets

✧ 30% Lifestyle choices

✕ Clothing, restaurants, phone,  
entertainment

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## Budgeting

Only 1 in 3 Americans has a household budget!

✧ Mint ([www.mint.com](http://www.mint.com))

✧ Tracks everything in real time

✧ You Need a Budget

([www.youneedabudget.com](http://www.youneedabudget.com))

✧ Every Dollar ([www.everydollar.com](http://www.everydollar.com))

✧ Quicken ([www.quicken.com](http://www.quicken.com))

✧ Most full-featured of all

✧ Personal capital ([www.personalcapital.com](http://www.personalcapital.com))

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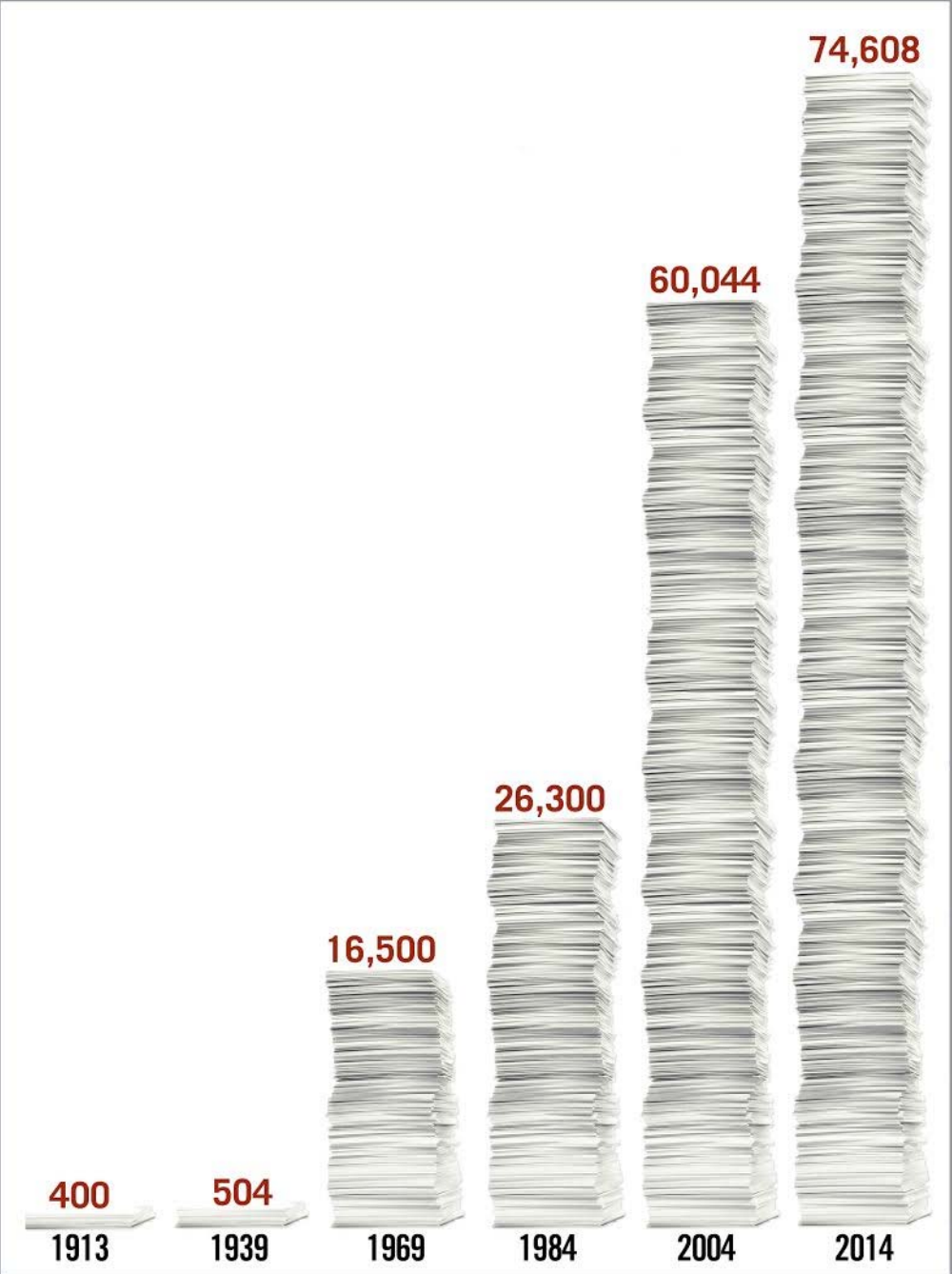
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Tax code is  
amazingly  
complex

NUMBER OF PAGES IN THE FEDERAL TAX CODE





**49%**  
Major entitlements

**20%**  
Income security and other benefits

**18%**  
National defense

**6%**  
Net interest

Medicare, Medicaid, other health care:  
**25%**

Social Security:  
**24%**



Transportation **3%**  
**K-12 education 1%**  
All other **3%**

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## Taxes

- ✧ Top 10% paid 71% of Federal Income taxes
- ✧ Earn 48% of reported income
- ✧ What is top 10%?
- ✧ Elite, ultra-wealthy. . .

\$113,018

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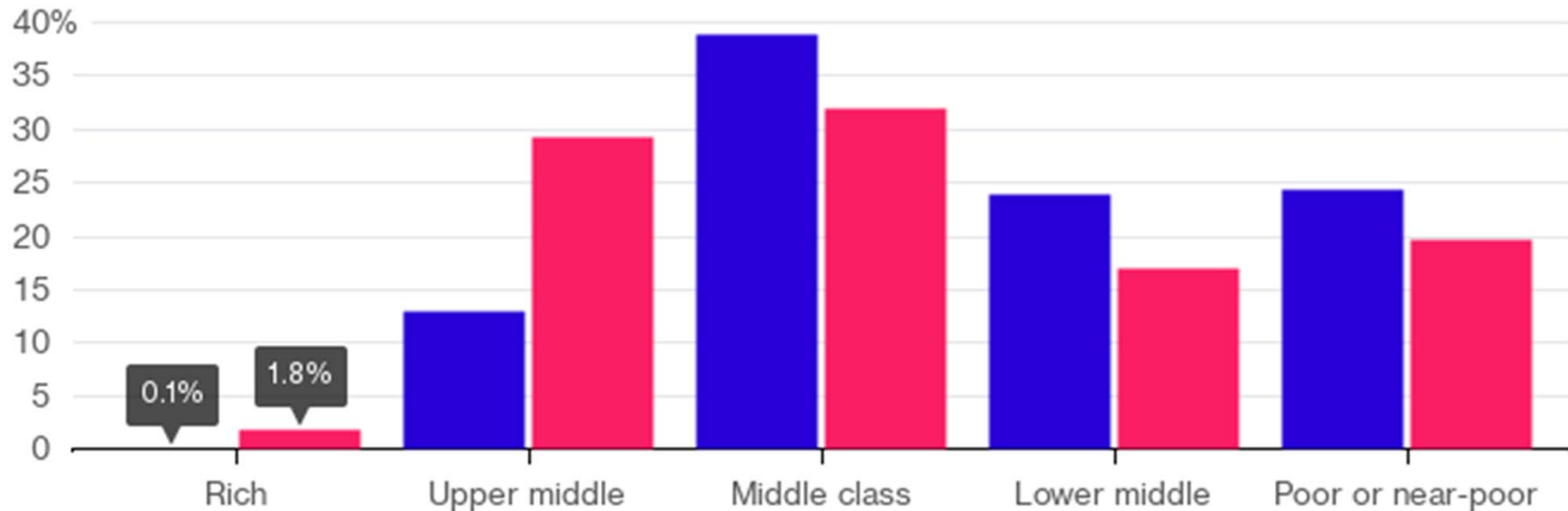
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Wealth Creation

One new millionaire created every 50 seconds!



Stephen Rose, Urban Institute, 2016

Lower bounds of income: rich, \$350,000; upper, \$100,000; middle, \$50,000; lower, \$30,000.

Bloomberg

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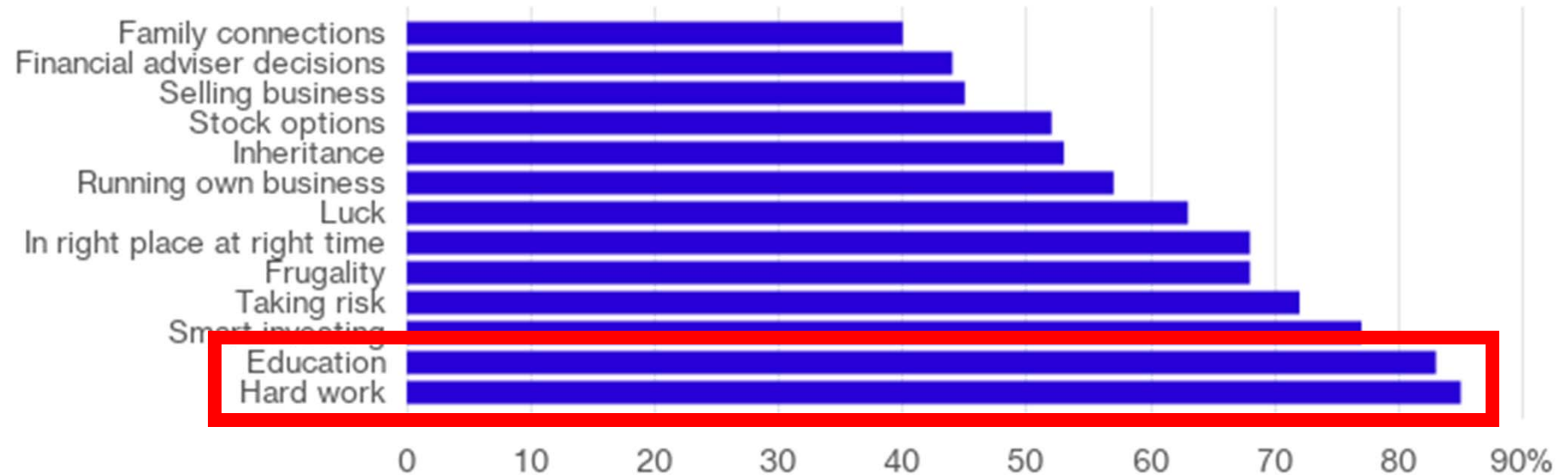


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# How do they get rich?

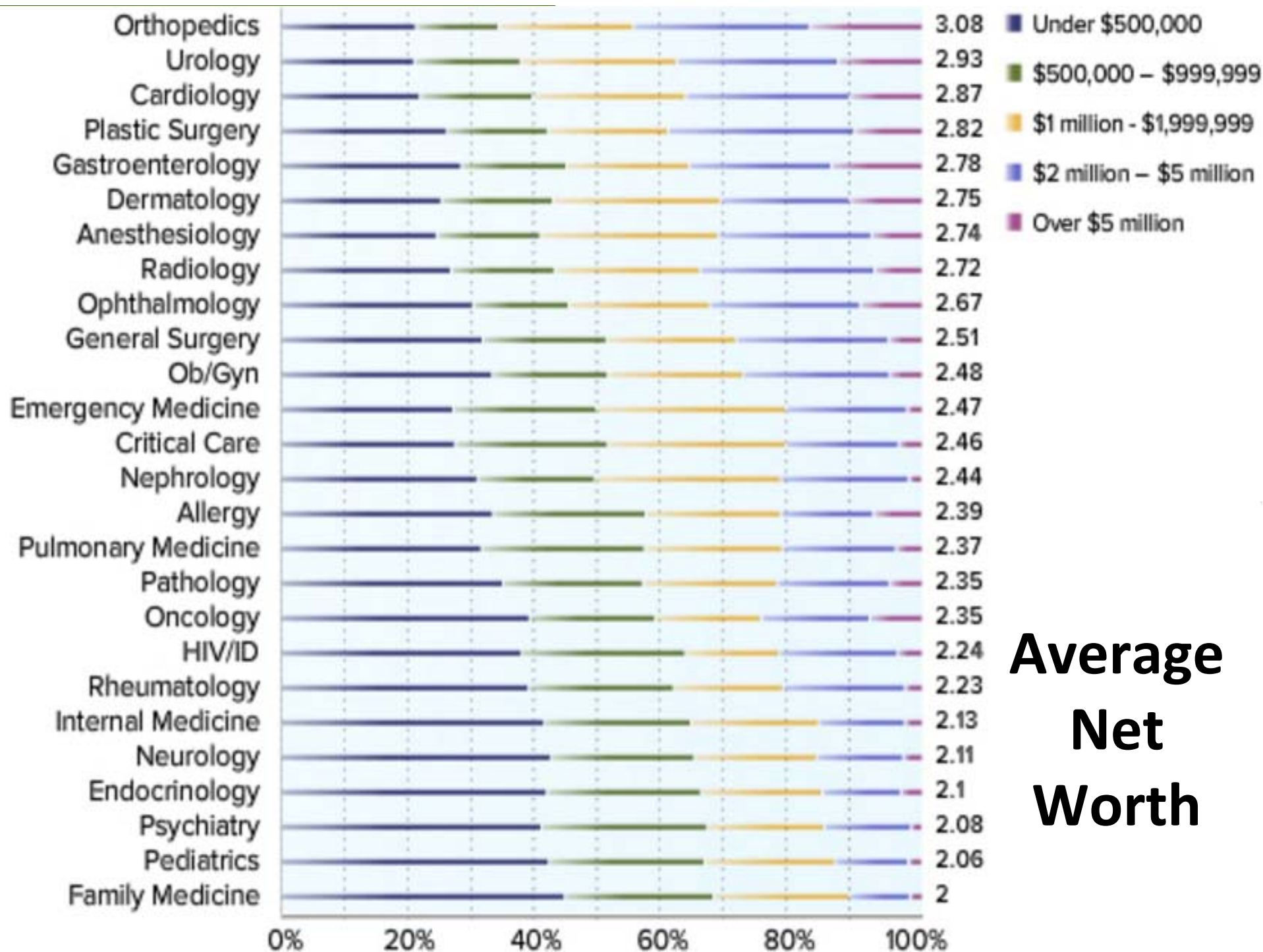
## How the Rich Get That Way

Factors that investors with more than \$25 million cite in their success.



Spectrem Group survey of 168 people with \$25 million, not including primary residence.

Bloomberg



# Average Net Worth

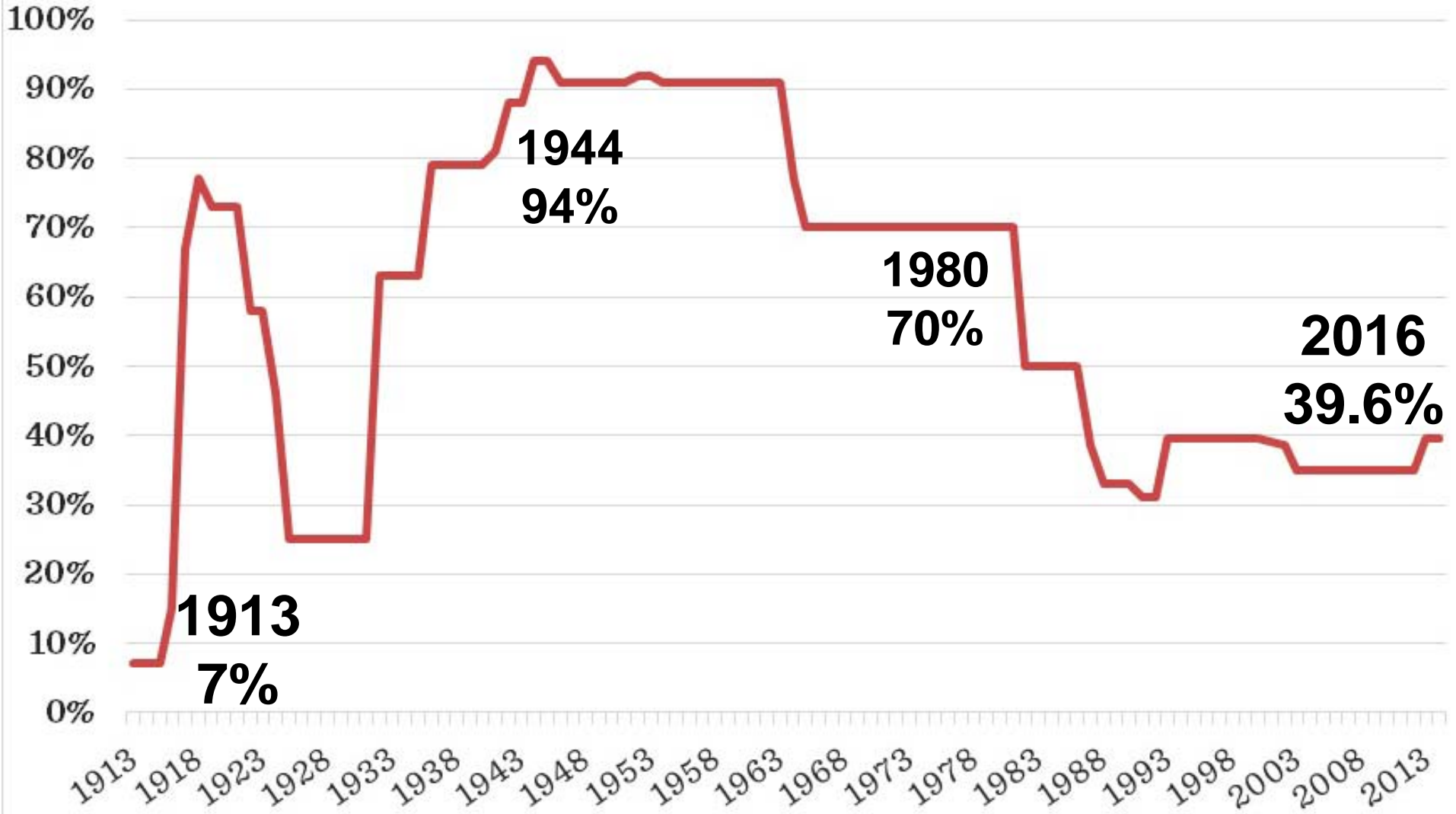
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# Marginal Top Tax Rate Changes



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## Tax Savvy

- ✧ Higher earnings = Higher Taxes
- ✧ Dollar saved = Dollar earned
- ✧ Tax shelters
- ✧ Tax breaks
- ✧ IRAs, SEPs, Keogh, 401(k)
- ✧ Must work with someone who knows your tax bracket
- ✧ Tax efficient investments: municipal bonds, tax deferred, tax free

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## Tax Allocation

### Protect your assets

✧ In general:

✘ Investments with biggest tax bills should be in deferred accounts (Keogh, 401(k), IRA)

» Bonds, REITs

✘ Investments with best capital appreciation should be in taxable accounts (investment accounts)

» Stocks

✧ Unrealized capital gains disappear at death!



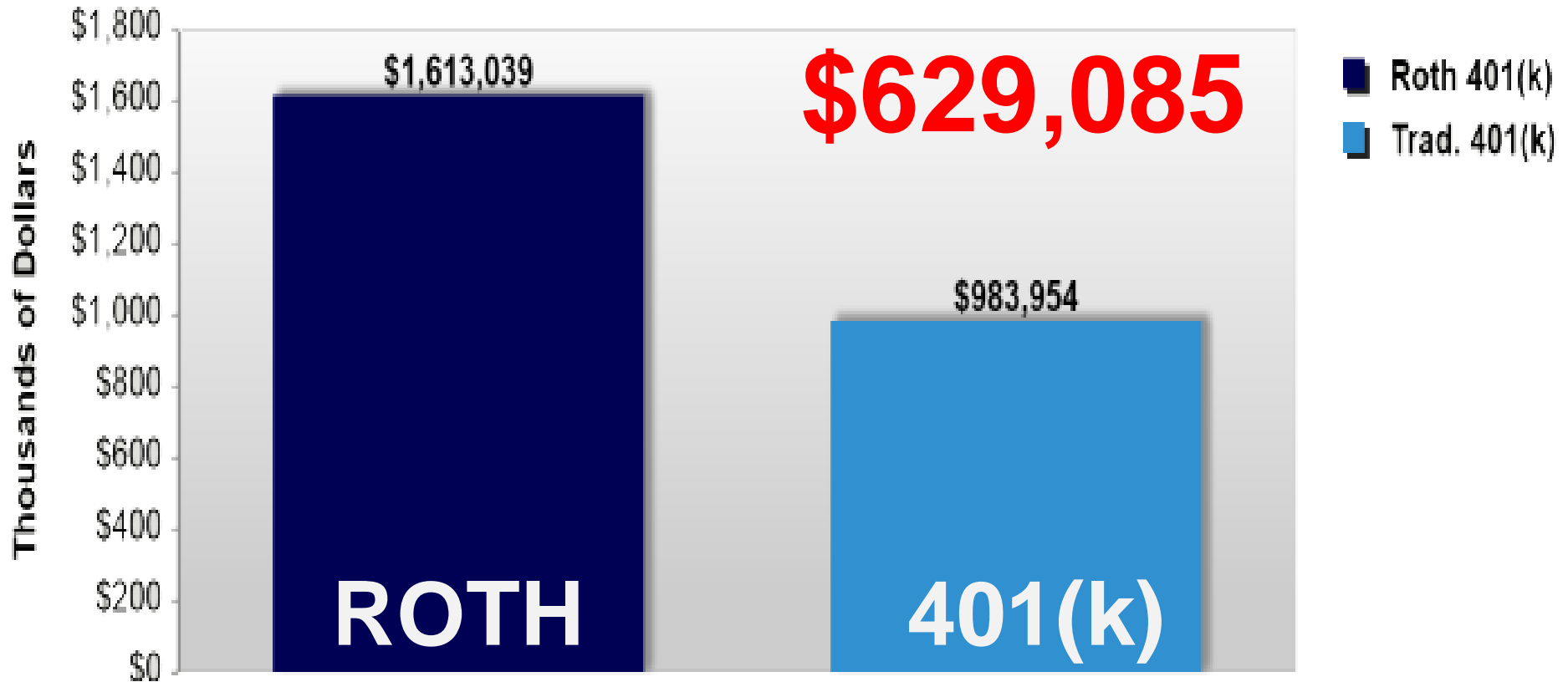
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## Roth vs. Traditional 401(k)



Start at 35 years; \$18,000 per year for 30 years, with catch-up at 50, at 6% annualized return, assuming 39% tax bracket

Tax savings are **NOT** invested in this example

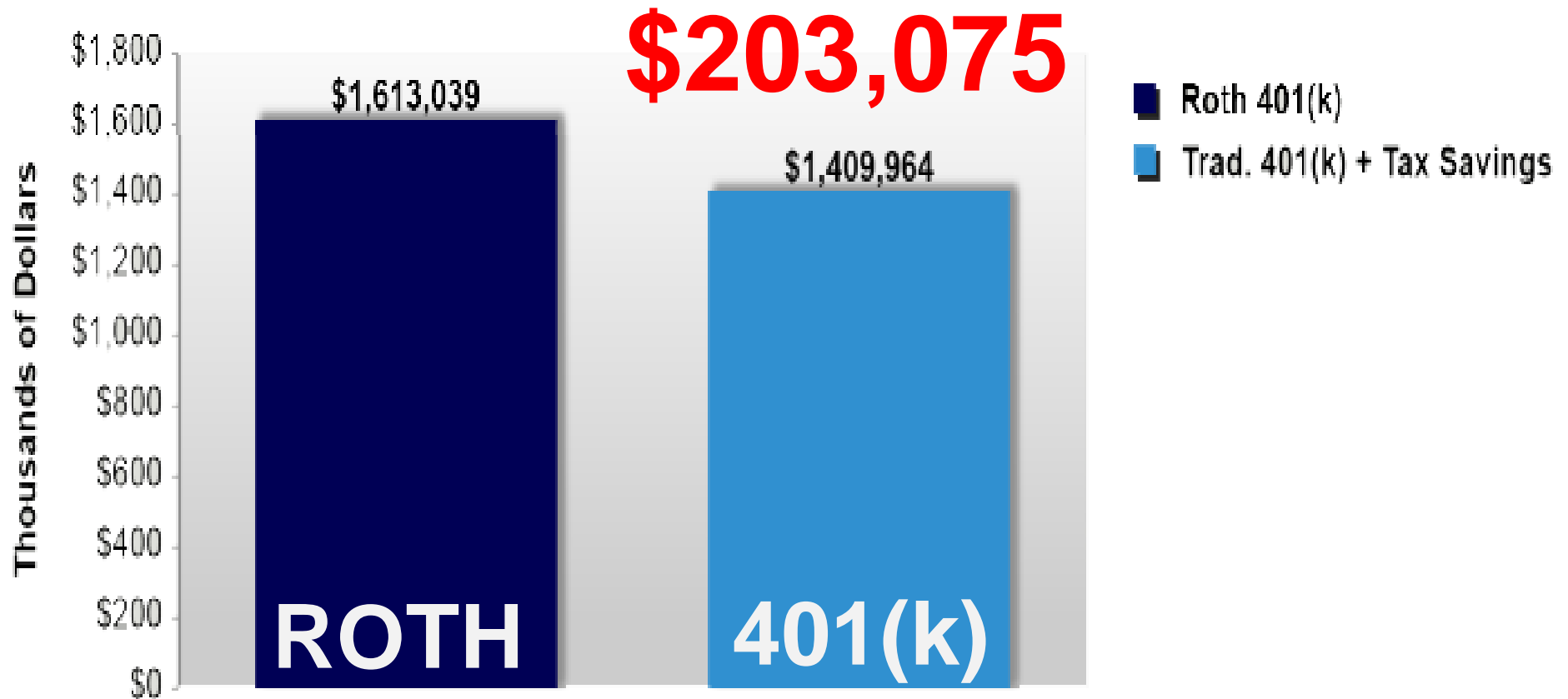
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# Roth vs. Traditional 401(k)



**Start at 35 years; \$18,000 per year for 30 years, with catch-up at 50, at 6% annualized return, assuming 39% tax bracket**

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## Charitable Trust

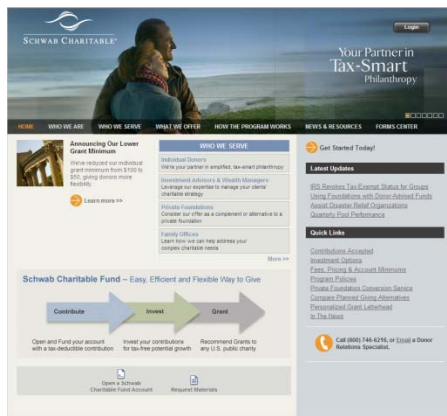
### Donor-advised fund:

- ✘ You put your money in an investment pool of your choice
- ✘ Get an immediate tax deduction
- ✘ Allow accumulated value before you distribute
- ✘ You can give away appreciated assets at full value – without paying capital gains or taxes

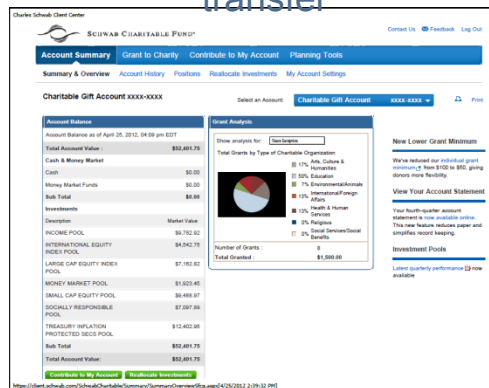
# The Schwab Charitable Giving Experience



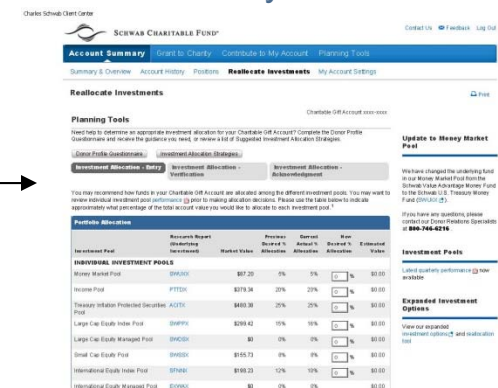
Open account and make an initial contribution



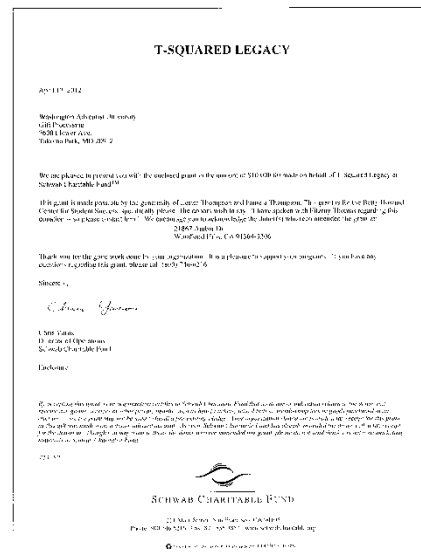
Make additional contributions online or via regular electronic funds transfer



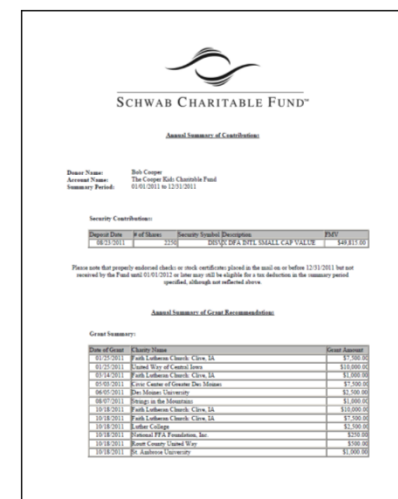
Recommend and reallocate investments + check balances online any time



Recommend grants to charity and choose to have your account name on grant letters.



Receive quarterly online account statements and an account summary for tax purposes.



- Schwab Charitable Donor Relations Specialists

(800) 746-6216

- Visit website

[www.schwabcharitable.org](http://www.schwabcharitable.org)

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## Parental Insurance

- ✧ I bought insurance on my parents
  - ✗ Will not love you less because I have insurance on you
  - ✗ I was not going to kill them
  - ✗ I had an insurable interest
  - ✗ Willing to do a physical/blood testing
- ✧ Tax free when paid out
  - ✗ After they have both died!

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1. Not saving enough
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## 4. Inadequate Insurance

Malpractice

Liability

Disability

Auto

Homeowners

Health

Life

Umbrella



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## Insurance

✧ Insurance is a safety net

✧ Risk Management

✕ Loss of life

✕ Sickness or injury

✕ Disability

✕ Loss of or damage to property

✕ Personal liability

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## Life Insurance

### ✧ Life Insurance:

- ✧ Term: “pure protection”
- ✧ Cash-value life insurance

### ✧ How much to get (face value):

- ✧ Age 20-39 years: 8-14x annual income
- ✧ Age 40-60 years: 4-10x annual income
- ✧ 65+ years: depends

### ✧ Number of dependents, funding for college education, mortgage payments, and lifetime income needs of the surviving spouse

### ✧ Shop for low premiums

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## Beneficiaries

- ✧ Your will has no jurisdiction
- ✧ You should name a runner-up
- ✧ Retirement accounts are unique
  - ✧ 401(k), Keogh, IRA, Roth IRA, Roth 401(k)
  - Simple IRA, SEP IRA
- ✧ Name a minor – guarantee probate
- ✧ Changing beneficiaries is easier than changing a coffee pot filter!

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## Umbrella Coverage

Nationally, nearly one in every six jury awards for personal negligence tallied \$1M or more, and the average award was \$2,959,047

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## Umbrella Liability Insurance

- ✧ Vulnerable to lawsuits for a host of reasons
- ✧ Need sufficient personal liability coverage
- ✧ Umbrella increases the amount of protection, and expands the protection to cover more areas of liability
  - ✧ Usually covers the costs of your defense
- ✧ An umbrella policy is \$500-700/yr for a \$3 million policy
- ✧ Start with homeowner or auto policy companies
  - ✧ Need to have “coverage” already to get umbrella

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## 5. Bad Investments

**EVERYBODY**

tries to sell you an investment of the most exotic and convoluted type

**ESPECIALLY PATIENTS**



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## 5. Bad Investments

- ✧ Select simple, easy to understand and explain investments
  - ✕ If you don't understand the business or can't explain it to someone in a couple minutes: run screaming!
- ✧ Avoid medical ventures
  - ✕ Just because you are in the medical profession doesn't mean you understand it
- ✧ Good diversification based on risk



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## Retirement Rules

### ✧ What to invest in

✗ NEVER time the market

✗ Index, Index, Index

» Do you know something the Market does not?

✗ Set Goals and keep them

» Monitor goals every 6-12 months

» Stick to a Plan: Fear and Greed drive the market

✗ Get Help

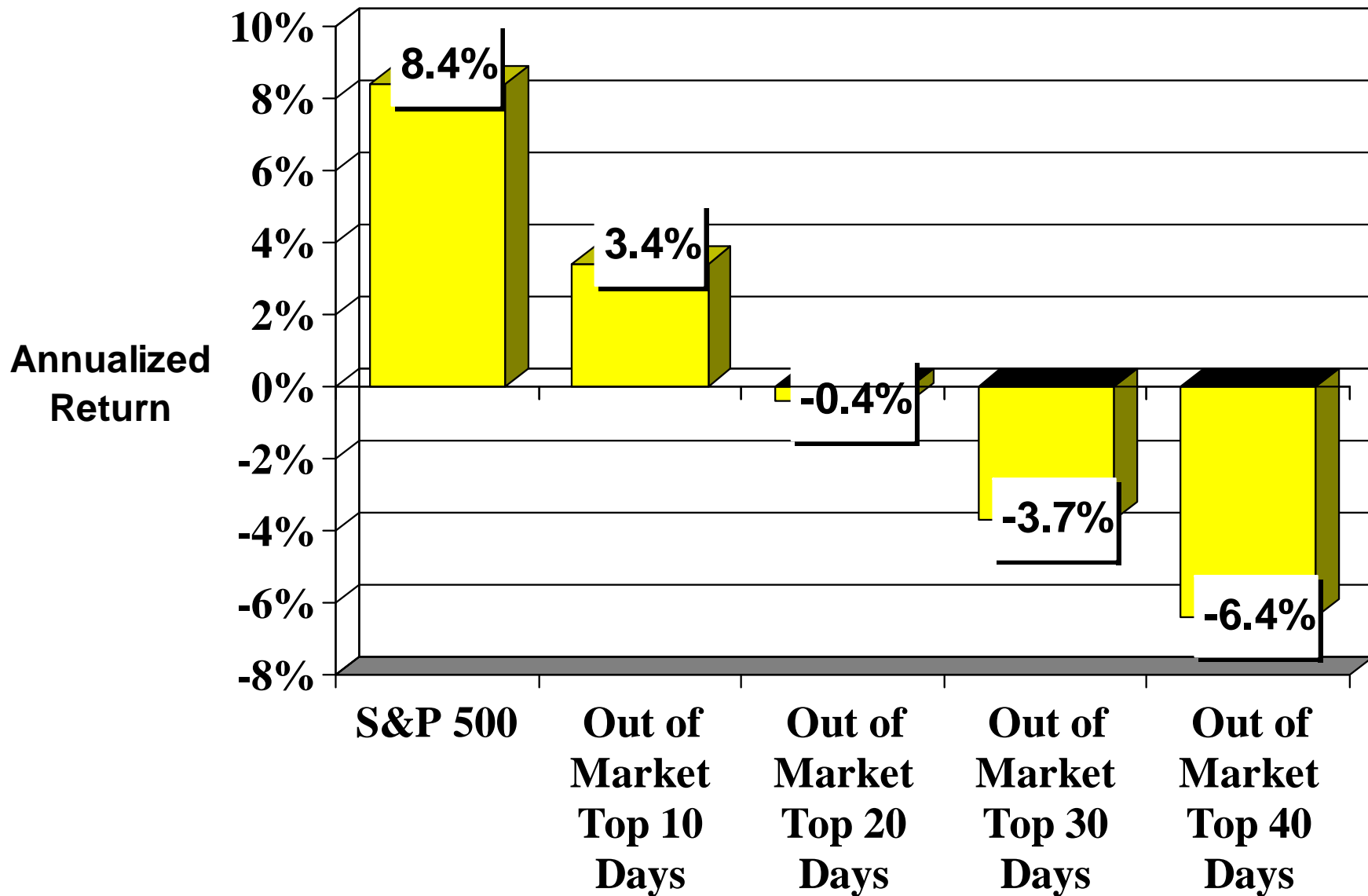
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## *“Time in the Market” vs. “Timing the Market”*



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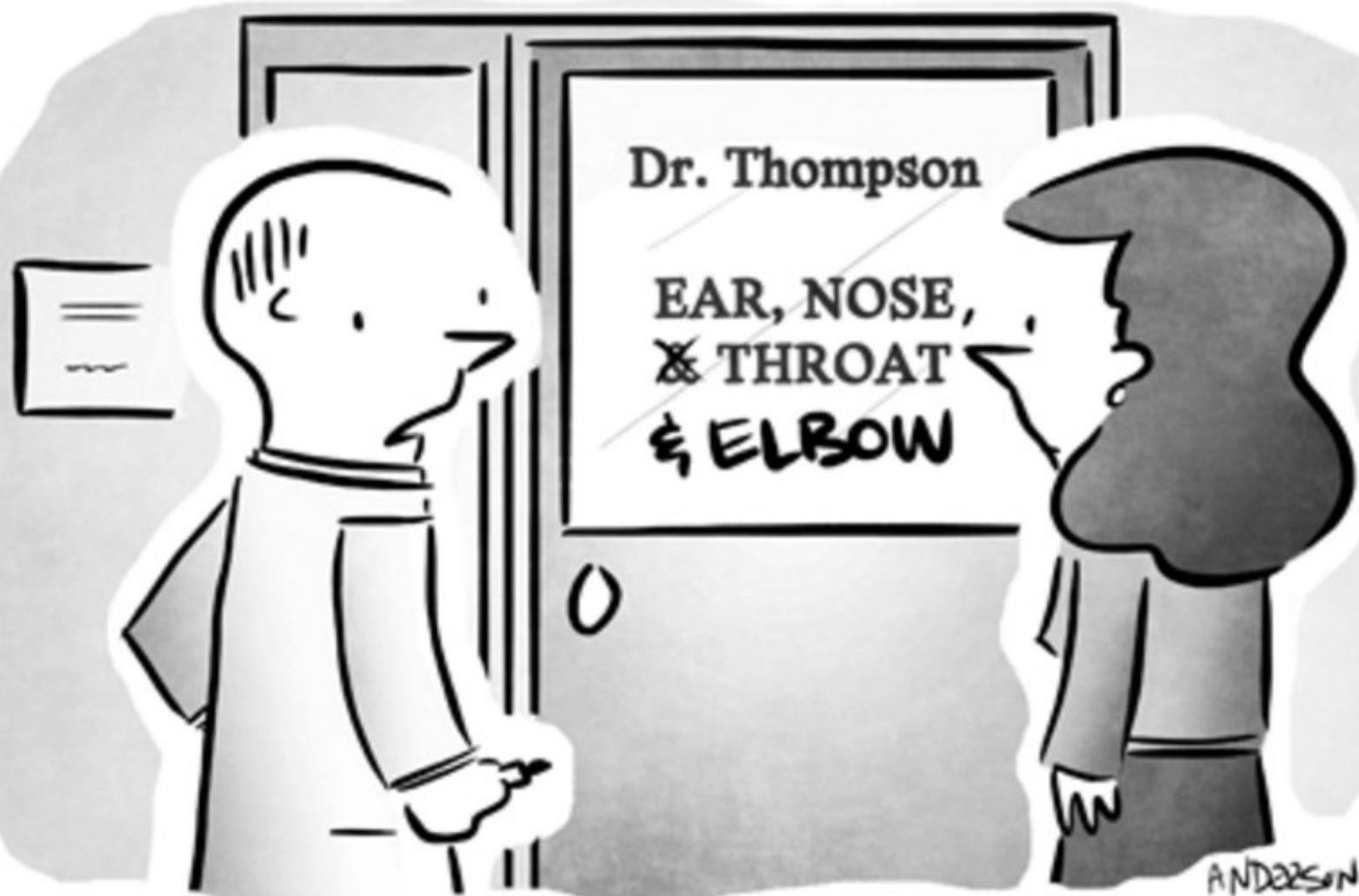
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*“Time in the Market”  
vs. “Timing the Market”*





"I'm diversifying."

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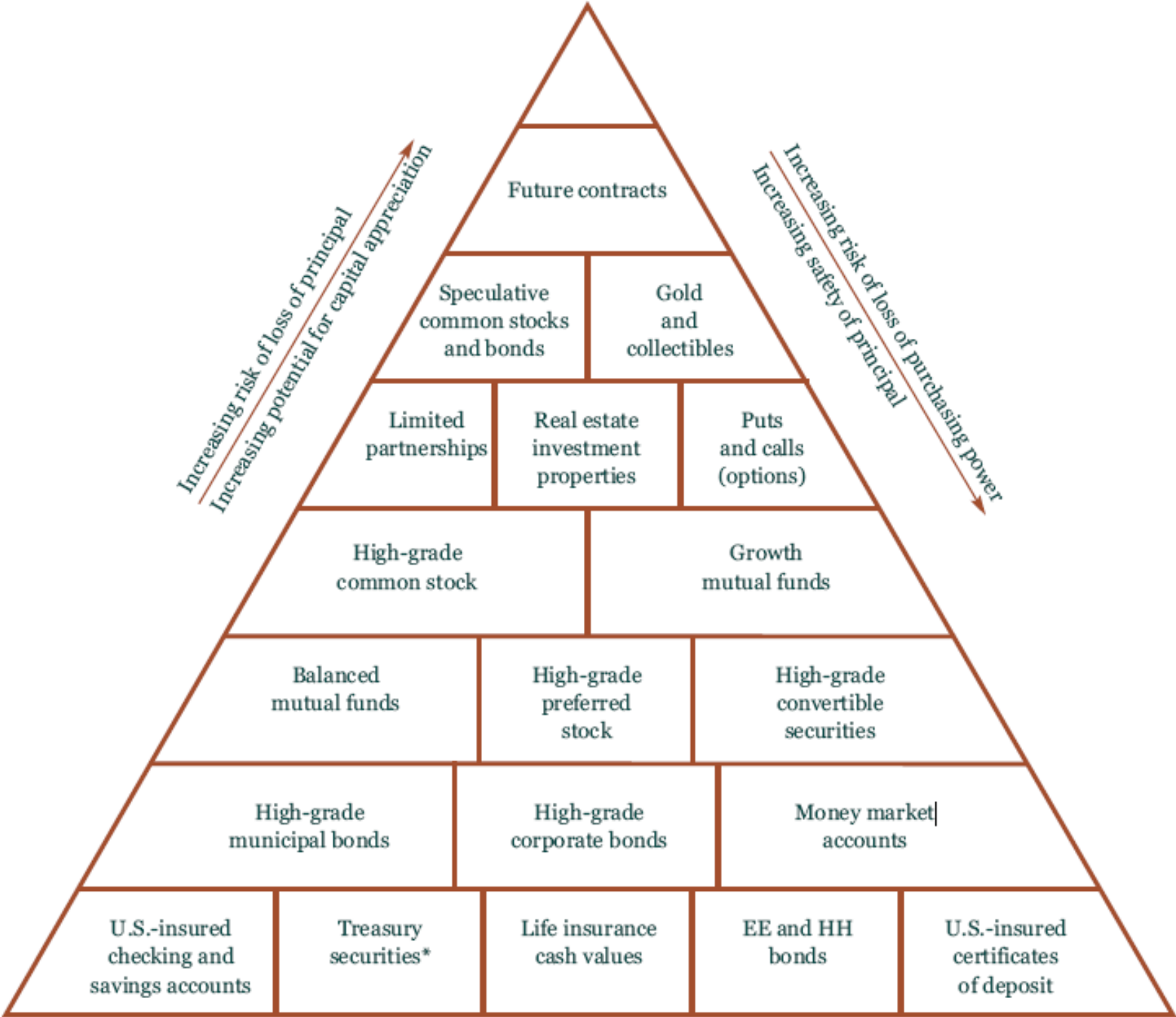
## Asset Allocation

### ✧ The Magic of Diversification

- ✕ The practice of spreading money among different investments
- ✕ Reduces risk

✧ By picking the right group of investments, you can try to limit your losses and reduce fluctuations without sacrificing too much potential gain

# INVESTMENT VEHICLE PYRAMID: RISK/RETURN TRADE-OFF



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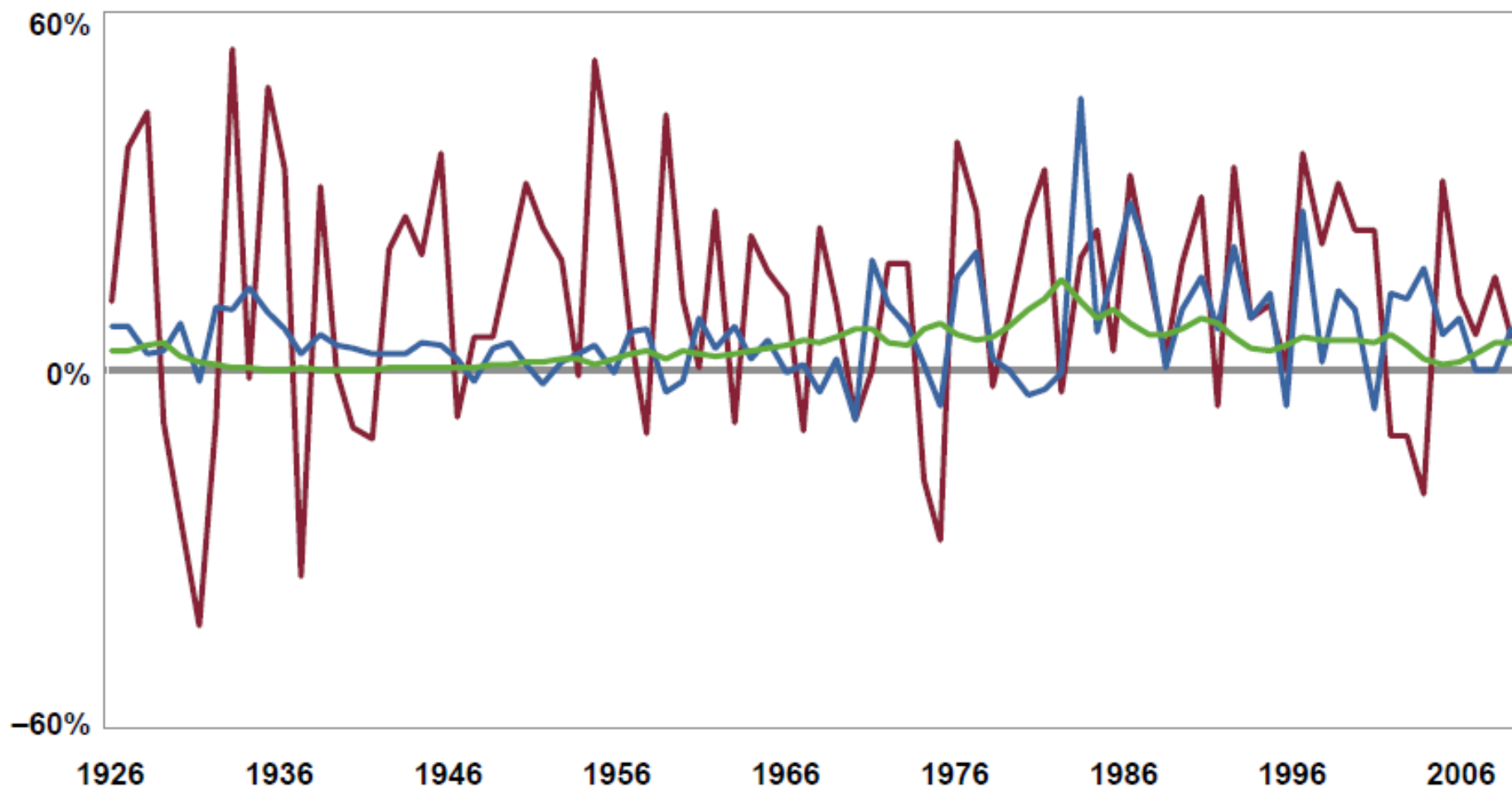


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## Risk versus Return

1926–2007

Stocks Bonds Short-Term reserves



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## Market Volatility





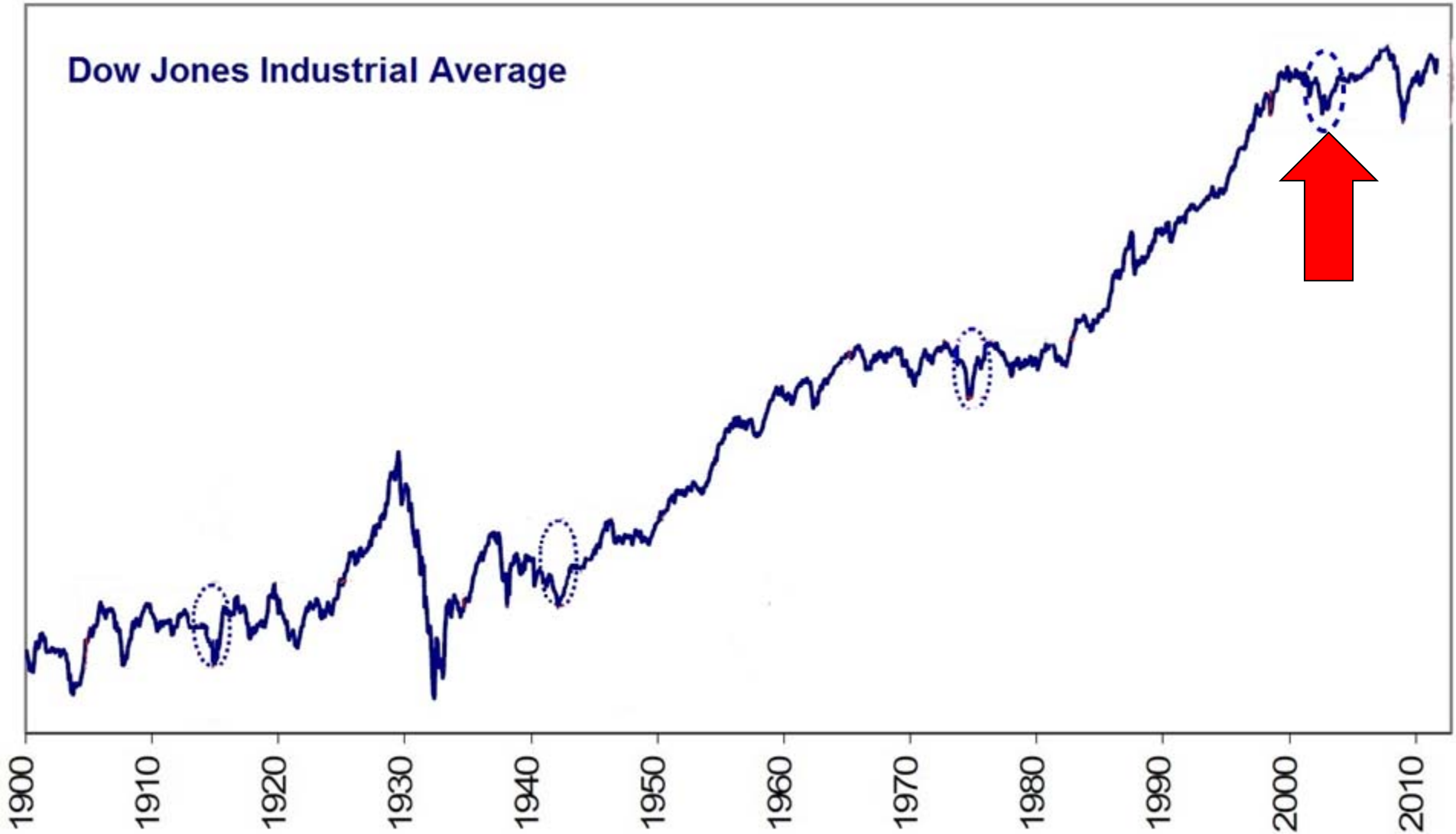
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## Market Volatility



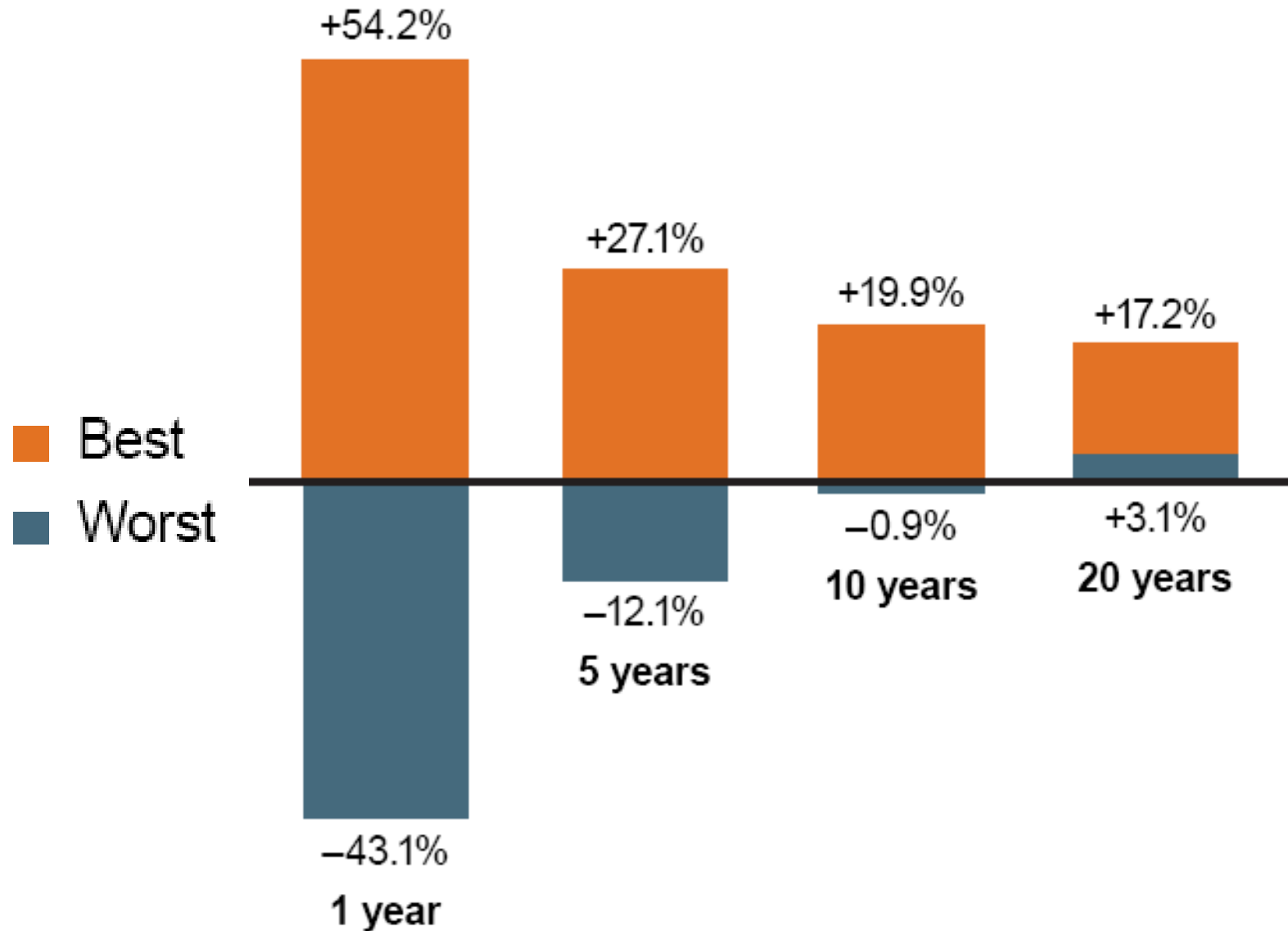
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# Reduction of Risk over Time 1926-2016



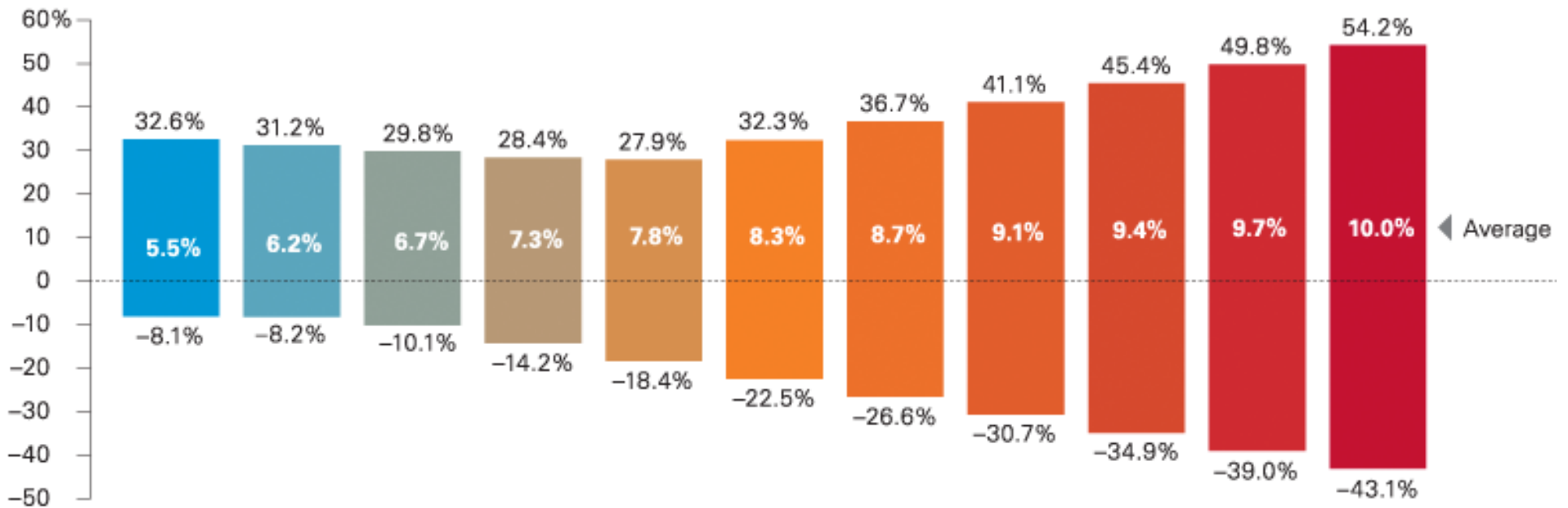
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## Allocation Returns



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## Rules of Investing

✧ Time

✧ Dollar cost averaging

✧ Tax deferral

✧ Asset allocation

✧ Type of investment

✧ Stocks, bonds, mutual funds, ETFs

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## Portfolio Performance

Asset allocation

91.5%

Individual investment  
selection

4.6%

Other

2.1%

Market timing

1.8%

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## Investment Planning

### ✧ Asset Allocation (single most important factor)

- ✧ Risk Tolerance

- ✧ Financial Goals / Time Horizon

### ✧ Investment Selection

- ✧ Expenses are an important factor in performance

- ✧ Return, especially After-tax return

- ✧ Not nearly as important as asset class

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# Asset Class Rankings By Calendar Year

2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
HG Bnd 10.3%	EM 56.3%	REIT 31.6%	EM 34.5%	REIT 35.1%	EM 39.8%	HG Bnd 5.2%	EM 79.0%	REIT 28.0%	REIT 8.3%	REIT 19.7%	Sm Cap 38.8%	REIT 28.0%	REIT 2.8%	REIT 13.7%
REIT 3.8%	Sm Cap 47.3%	EM 26.0%	Int'l Stk 14.0%	EM 32.6%	Int'l Stk 11.6%	Cash 1.4%	HY Bnd 57.5%	Sm Cap 26.9%	HG Bnd 7.8%	EM 18.6%	Lg Cap 32.4%	Lg Cap 13.7%	Lg Cap 1.4%	HY Bnd 9.3%
Cash 1.6%	Int'l Stk 39.2%	Int'l Stk 20.7%	REIT 12.2%	Int'l Stk 26.9%	AA 7.6%	AA -22.4%	Int'l Stk 32.5%	EM 19.2%	HY Bnd 4.4%	Int'l Stk 17.9%	Int'l Stk 23.3%	AA 6.9%	HG Bnd 0.6%	EM 6.6%
HY Bnd -1.9%	REIT 37.1%	Sm Cap 18.3%	AA 8.9%	Sm Cap 18.4%	HG Bnd 7.0%	HY Bnd -26.4%	REIT 28.0%	HY Bnd 15.2%	Lg Cap 2.1%	Sm Cap 16.4%	AA 11.5%	HG Bnd 6.0%	Cash 0.1%	HG Bnd 5.3%
AA -3.8%	Lg Cap 28.7%	AA 14.1%	Lg Cap 4.9%	AA 16.7%	Lg Cap 5.5%	Sm Cap -33.8%	Sm Cap 27.2%	Lg Cap 15.1%	AA 0.3%	Lg Cap 16.0%	HY Bnd 7.4%	Sm Cap 4.9%	Int'l Stk -0.4%	AA 4.4%
EM -6.0%	HY Bnd 28.2%	Lg Cap 10.9%	Sm Cap 4.6%	Lg Cap 15.8%	Cash 4.4%	Lg Cap -37.0%	Lg Cap 26.5%	AA 13.5%	Cash 0.1%	HY Bnd 15.6%	REIT 2.9%	HY Bnd 2.5%	AA -1.3%	Lg Cap 3.8%
Int'l Stk -15.7%	AA 25.9%	HY Bnd 10.9%	Cash 3.2%	HY Bnd 11.8%	HY Bnd 2.2%	REIT -37.7%	AA 24.6%	Int'l Stk 8.2%	Sm Cap -4.2%	AA 12.2%	Cash 0.1%	Cash 0.0%	Sm Cap -4.4%	Sm Cap 2.7%
Sm Cap -20.5%	HG Bnd 4.1%	HG Bnd 4.3%	HY Bnd 2.7%	Cash 4.7%	Sm Cap -1.6%	Int'l Stk -43.1%	HG Bnd 5.9%	HG Bnd 6.5%	Int'l Stk -11.7%	HG Bnd 4.2%	HG Bnd -2.0%	EM -1.8%	HY Bnd -4.6%	Cash 0.3%
Lg Cap -22.1%	Cash 1.0%	Cash 1.4%	HG Bnd 2.4%	HG Bnd 4.3%	REIT -15.7%	EM -53.2%	Cash 0.2%	Cash 0.2%	EM -18.2%	Cash 0.1%	EM -2.3%	Int'l Stk -4.5%	EM -14.6%	Int'l Stk -4.0%

Abbr.	Asset Class – Index	Annual	Best	Worst
Lg Cap	Large Caps Stocks – S&P 500 Index	6.42%	32.4%	-37.0%
Sm Cap	Small Cap Stocks – Russell 2000 Index	7.47%	47.3%	-33.8%
Int'l Stk	International Developed Stocks – MSCI EAFE Index	5.05%	39.2%	-43.1%
EM	Emerging Market Stocks – MSCI Emerging Markets Index	9.95%	79.0%	-53.2%
REIT	REITs – FTSE NAREIT All Equity Index	11.97%	37.1%	-37.7%
HG Bnd	High Grade Bonds – Barclay's U.S. Aggregate Bond Index	5.11%	10.3%	-2.0%
HY Bnd	High Yield Bonds – BofAML US High Yield Master II Index	8.49%	57.5%	-26.4%
Cash	Cash – 3 Month Treasury Bill Rate	1.23%	4.7%	0.0%
AA	Asset Allocation Portfolio*	7.57%	25.9%	-22.4%

Past performance does not guarantee future returns. The historical performance shows changes in market trends across several asset classes over the past fifteen years. Returns represent total annual returns (reinvestment of all distributions) and does not include fees and expenses. The investments you choose should reflect your financial goals and risk tolerance. For assistance, talk to a financial professional. All data are as of 6/30/16.

\*Asset Allocation Portfolio is made up of 15% large cap stocks, 15% international stocks, 10% small cap stocks, 10% emerging market stocks, 10% REITs, 40% high-grade bonds, and annual rebalancing.

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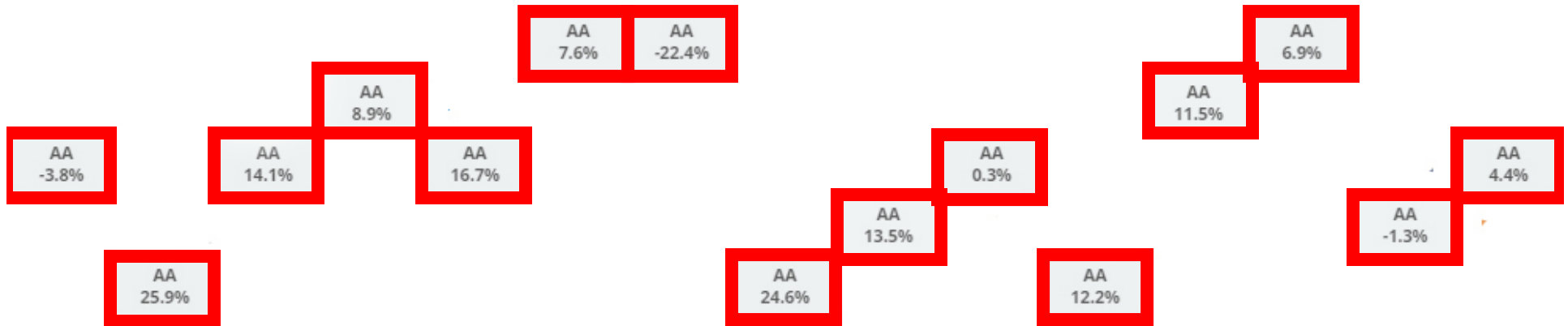
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# Asset Class Rankings By Calendar Year

2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016





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# Fund Structure

## Combined BOTH Plans

Money Market/Stable Value	Fixed Income	Balanced	Domestic Equity			Global Equity	International Equity
<p><b>Money Market</b></p> <ul style="list-style-type: none"> <li>▪Schwab Government Fund (Self-directed Money Market Fund)</li> <li>▪PCRA cash option</li> </ul>	<p><b>Core/Core Plus</b></p> <ul style="list-style-type: none"> <li>▪Standish Mellon Fixed Income</li> <li>▪Vanguard Total Bond Market Index</li> </ul>	<p><b>Balanced</b></p> <ul style="list-style-type: none"> <li>▪Vanguard Wellington Fund</li> </ul>	<p><b>Large Value</b></p> <ul style="list-style-type: none"> <li>Vanguard Value Index</li> </ul>	<p><b>Large Blend</b></p> <ul style="list-style-type: none"> <li>▪BlackRock US Equity Fund</li> <li>▪Vanguard FTSE Social Index</li> <li>▪DFA US Core Equity II Fund</li> <li>▪Vanguard Total Stock Market Index</li> </ul>	<p><b>Large Growth</b></p> <ul style="list-style-type: none"> <li>▪Janus Forty Portfolio</li> <li>▪Vanguard Morgan Growth</li> <li>▪Vanguard Primecap</li> </ul>	<p><b>Global Equity Core</b></p> <ul style="list-style-type: none"> <li>▪American Funds Capital World Growth &amp; Income</li> </ul>	<p><b>Int'l Equity Large Cap</b></p> <ul style="list-style-type: none"> <li>▪Dodge &amp; Cox Int'l Stock Fund</li> <li>▪Vanguard International Growth</li> </ul>
<p><b>Managed Income/Stable Value</b></p> <ul style="list-style-type: none"> <li>▪Interest Income</li> <li>▪Stable Income Fund</li> </ul>			<p><b>Mid/SMID Value</b></p> <ul style="list-style-type: none"> <li>▪Robeco Boston Partners Small/Mid-Cap Value</li> <li>▪Hotchkis &amp; Wiley Midcap Value</li> </ul>	<p><b>Mid/SMID Blend</b></p>	<p><b>Mid/SMID Growth</b></p> <ul style="list-style-type: none"> <li>▪Vanguard Capital Opportunity</li> </ul>	<p><b>Int'l Equity Small Cap</b></p> <ul style="list-style-type: none"> <li>▪Columbia Acorn International</li> <li>▪T. Rowe Price International Discovery</li> </ul>	
			<p><b>Small Value</b></p> <ul style="list-style-type: none"> <li>▪Cambiar Small Cap Value Fund</li> </ul>	<p><b>Small Blend</b></p> <ul style="list-style-type: none"> <li>▪Vanguard Small Cap Index</li> </ul>	<p><b>Small Growth</b></p>		

Target Date Funds*						
Target Retirement Income Trust	Target Retirement 2020 Trust	Target Retirement 2030 Trust	Target Retirement 2040 Trust	Target Retirement 2050 Trust	Target Retirement 2060 Trust	
	Target Retirement 2015Trust	Target Retirement 2025 Trust	Target Retirement 2035 Trust	Target Retirement 2045 Trust	Target Retirement 2055Trust	

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## Choosing Where to Put your Money

### ✧ Reducing investment risk

- ✧ Diversify *within* each category of investment

- ✧ Diversity *among* categories of investments

**Because we cannot predict the future, we diversify**

### ✧ Deciding on an investment mix

- ✧ Asset allocation

### ✧ Rebalancing your portfolio



### ✧ Index Funds are Cheap

Expense Ratio

✧ Vanguard Total Stock Market = 0.04%

✧ Vanguard Total Bond Market = 0.05%

» Vs. Hotchkis & Wiley Mid Cap = 1.02%

### ✧ Tax savings

✧ Based on index has little buying & selling

» Portfolio turnover is low

» Vanguard Total Stock Market = 9%

### ✧ Less stress

✧ Move with the market—No more, no less

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Default Choice

96.3% of participants  
when defaulted into  
a fund, remained in  
that default option

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## Uniquely SCPMG

- ✧ An SCPMG physician has multiple sources of retirement income including:
  - ✧ Kaiser Defined Benefit Plan (Common Plan)
  - ✧ 401(k)
  - ✧ Keogh
  - ✧ Social Security
  - ✧ Possibly prior employment
- ✧ Shorter savings horizon than the average participant:
  - ✧ Start later due to medical school & residency

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# Target Date Funds

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## What is a Target Date Fund?

- ✧ A fund designed to provide you with age and risk appropriate income at a predetermined date at which you will retire
- ✧ You choose the age at retirement
- ✧ Adjusted automatically throughout your lifetime to rebalance and reallocate

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## Diversification

- ✧ Broadly diversified mix across all asset classes
- ✧ Each trust fund (e.g., 2025, 2040, or 2055) holds the **exact** same investments, just a **different** allocation
- ✧ >20,000 individual stocks and bonds



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## Breakdown by Sector

Equity	Core (95%)	US Equity (70%)	Large Cap (77%)	33% Large growth 33% Large Value 34% Large Blend
			Mid Cap (12%)	33% Mid/Small Growth 33% Mid/Small Value 34% Mid/Small Blend
			Small Cap (11%)	33% Mid/Small Growth 33% Mid/Small Value 34% Mid/Small Blend
		International Equity (30%)	Developed Markets (85%)	International Growth International Core International Value
			Emerging Markets (15%)	Emerging Markets Equity Trust
	Real Assets (5%)			Real Assets Trust I
Fixed Income	Fixed Income	Core Fixed Income (70%)		Bond Trust
		High Yield (10%)		US High Yield
		Non-Dollar (10%)		International Bond
		Emerging Markets (10%)		Emerging Markets
	Inflation Focused			US Inflation Trust

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## Sector Allocation

25+ sub-asset classes



### U.S. equity

- 9.0% Large growth
- 9.0% Large value
- 8.6% Large blend
- 3.4% Mid/Small growth
- 3.0% Mid/Small value
- 3.4% Mid/Small blend
- 1.4% U.S. REITs

### U.S. nominal bonds

- 13.9% Treasury/Agency
- 7.9% Government mortgage-backed
- 7.2% Corporate
- 1.8% Foreign
- 0.7% Commercial mortgage/ Asset-backed
- 0.3% Other

### Non-U.S. equity

- 3.8% Emerging
- 7.0% Europe
- 1.3% North America
- 3.7% Pacific
- 0.1% Middle East/Other
- 0.3% Non-U.S. REITs

### Non-U.S. nominal bonds

- 0.3% Emerging
- 5.6% Europe
- 0.7% North America
- 2.6% Pacific
- 0.1% Middle East/Other
- 4.8% **Short-term TIPS**
- 0.5% **Cash**

2015 Trust Fund Allocation

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## Glide Path

- ✧ The reallocation is based on a **“Glide Path”**
- ✧ Careful and planned shift in asset allocation over time
- ✧ Primary determinant for asset mixes at various points

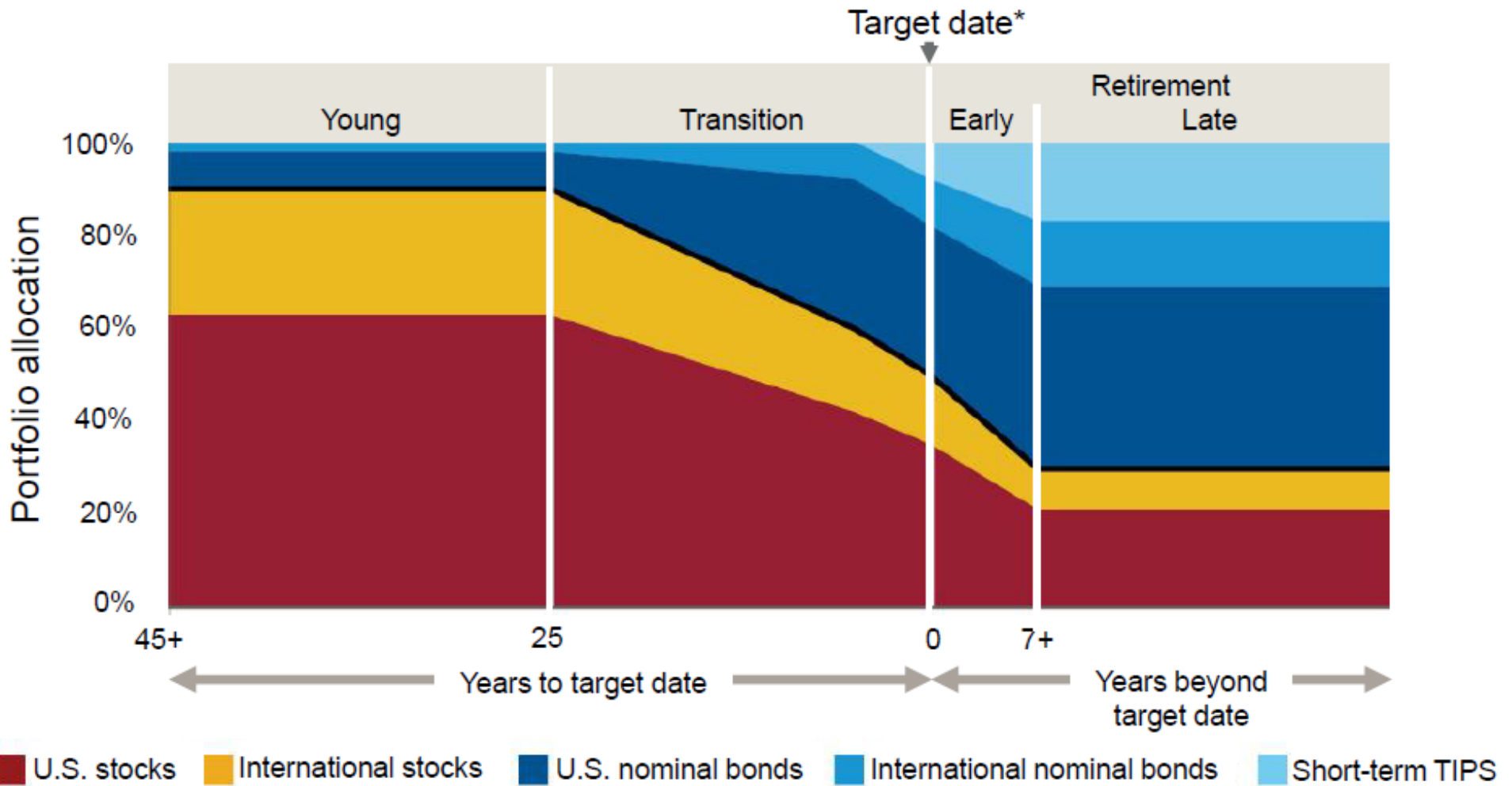
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## Glide Path



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## Fees

### ✧ Costs based on:

- ✧ Active versus passive management
- ✧ Fund Family
- ✧ Retirement date
- ✧ Operations costs
- ✧ Asset mix
- ✧ Investment vehicle

### ✧ Expense Ratio:

- ✧ Management fees, administrative fees, and market and distributions fees

✧ Average Target Date Expense Ratio: 0.91%

✧ **Vanguard: 0.06%!!!**

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## Adoption of Target-Date

### TSR

- ✧ 48% of physicians have a Target Date Fund
- ✧ 2,435 selected 1 Target Date Fund
- ✧ \$201,389,000 in assets

### Keogh

- ✧ 66% of physicians have a Target Date Fund
- ✧ 3,546 selected 1 Target Date Fund
- ✧ \$529,369,000 in assets

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## 5. Bad Investments

Excitement and expenses are  
your enemies

✧ Fees add up

✖ Investment fees or transaction costs

✧ Investment advice costs

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Costs Roll On Forever

**\$300,000 invested for 30 years at  
6% annualized return**

	<b>1.08%</b>	<b>0.08%</b>
<b>Ending Value</b>	<b>\$1,296,583</b>	<b>\$1,694,027</b>
<b>Fees</b>	<b>\$250,671</b>	<b>\$24,621</b>
<b>Lost Earnings</b>	<b>\$397,444</b>	<b>\$31,228</b>



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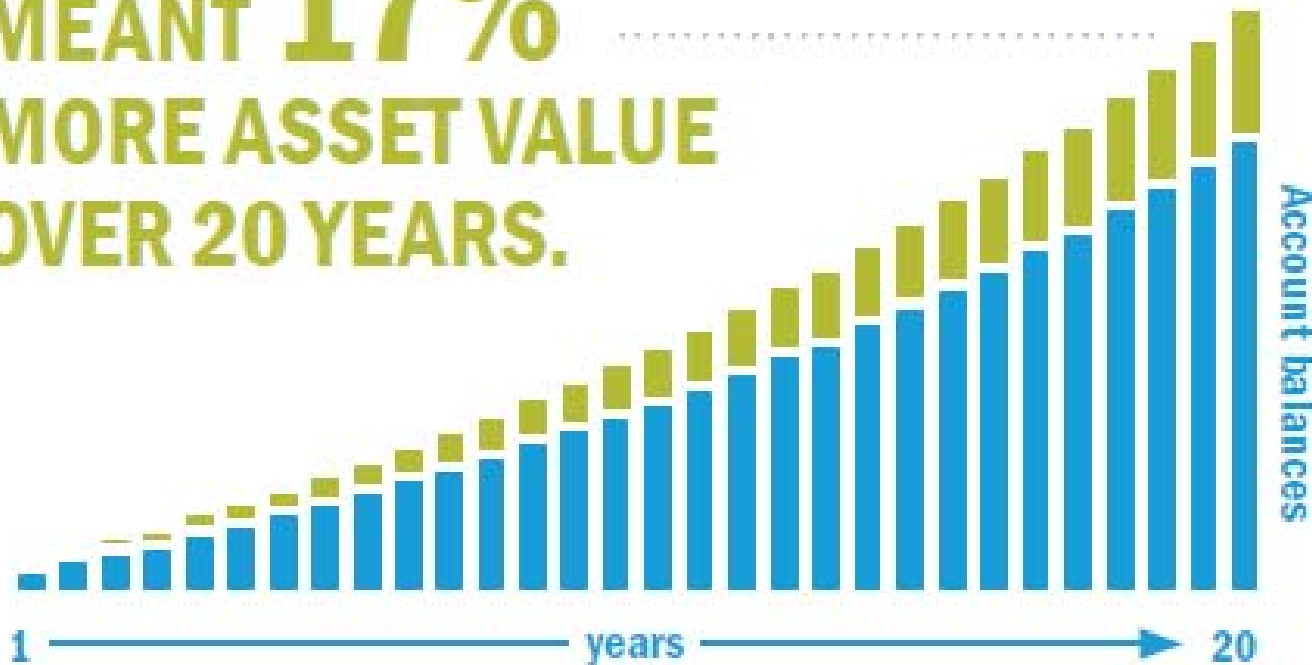


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## Expenses Add Up

CUTTING **1%**  
IN INVESTMENT  
OPERATING EXPENSES

MEANT **17%**  
MORE ASSET VALUE  
OVER 20 YEARS.



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**Advice**

**Advice is one of the keys to getting a good outcome**

**More likely to:**

✧ **Save more**

✧ **Save appropriately**

✧ **Stay engaged**

✧ **Work towards a target**

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## Planners / Advisors

- ✧ Always ask your planner to estimate your total costs and what benefit you are getting for it
- ✧ Ask if there is an alternative way to meet your goals that lets you keep more of your money
- ✧ Get the planner to put the answers to the above in writing – if not, ask why?
- ✧ Always know what you are buying
  - ✕ The most complex, the worse it is for you!

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## Advice.

### Knowledgeable advice that's tailored to you.

Your Financial Consultant can work with you to create a plan that's specific to your financial situation, not just your investment portfolio. Expect thoughtful discussions—as often as needed—to help tailor a plan that's right for you.

You and your Financial Consultant can meet regularly to help you stay on track toward your goals, answer any questions you have, and keep your plan up to date as your life and your career evolve.

### Not just one person's advice. Schwab's advice.

At Schwab, you'll find a highly disciplined and consistent approach to investing, grounded in the expertise of the Schwab Center for Financial Research and enriched by the thinking of specialists.

## Choice.

### Access to many leading investment options—not just our own.

When your Financial Consultant makes recommendations, he or she can bring ideas from across the industry to get you appropriate investment options, not just products from Schwab.

Whether we're recommending individual investments or discussing portfolios that are managed for you, you can expect a clear explanation of the pros and cons to help you make confident choices from a range of options, including:

- Managed accounts
- Equities
- Fixed income
- Mutual funds
- Exchange-traded funds
- Annuities and insurance
- Cash investments

## Transparency.

### Straight answers about what you pay—and why.

We'll be open and honest in all aspects of our relationship, including any fees you may pay for our services. Expect clear explanations for the recommendations your Financial Consultant makes to you, along with the reasoning behind them.

You'll be able to see how your portfolio is performing against appropriate benchmarks.

**As part of our relationship with Charles Schwab as the record-keeper of both our Keogh and 401(k) Plans, we have access to Schwab's Executive Services program.**

**Financial Consultants:**

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**Happy to help you with whatever you need,  
holding individual one-on-one sessions**



*Own your tomorrow.*

Disclosure: Investing involves risk including loss of principal. Investment strategies cannot guarantee a profit or protect against loss in declining markets and may not be suitable for everyone. Presentations are informational and should not be considered as personalized investment advice or recommendations.

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1. Not saving enough
2. Poor debt management
3. Not being tax savvy
4. Inadequate insurance
5. Bad investments
- 6. Divorce**
7. Not keeping track



## 6. Divorce

- ✧ Starting over is always expensive
- ✧ Nothing a will impact finances as much as a divorce
- ✧ Major change in housing, retirement savings, future income stream
  - ✧ Alimony, child support
- ✧ ALWAYS get a prenuptial agreement
- ✧ Postnuptial agreement works too
  - ✧ But talk about suspicious



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## 6. Divorce

- ✧ Professional divorce is expensive
- ✧ Splitting up a practice
- ✧ Closing an office
- ✧ Buy-out costs, employee severances, malpractice tail coverage, lost income
- ✧ **ALWAYS** have a contract – and have it reviewed by an experienced health care attorney with established buy-sell agreements

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## Marriage vs. Divorce

**Marriage is not  
50:50**

**Divorce is 50:50**

**Marriage is  
100:100**

**Give it your all**



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## Gray Divorce

- ✧ Living longer – but marriages aren't
  - ✧ Risk of divorce for more years
- ✧ Sacrifice retirement security
- ✧ Standard of living decline
- ✧ More expensive to live alone than married
- ✧ Retirement savings are split
  - ✧ Major source of contested divorce
- ✧ Men: 23%      Women: 41% decline in household income
- ✧ Probably should downsize, so don't keep house

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1. Not saving enough
2. Poor debt management
3. Not being tax savvy
4. Inadequate insurance
5. Bad investments
6. Divorce
- 7. Not keeping track**

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## Common Plan

- ✧ Sponsored by KFHP
- ✧ Non-qualified defined benefit plan
- ✧ Ten years of Qualifying Service is necessary for vesting
- ✧ Credited Service is pro-rated to work schedule
- ✧ Highest Average Compensation is highest 36 consecutive months of base compensation out of the last 120 months
- ✧ Benefits are based upon a formula

[www.ibenefitcenter.com/kp](http://www.ibenefitcenter.com/kp)



### Your Tasks

- ✓ Annual Compliance Training 2016 (30 min)
- ✓ Physician Safety Training 2016 (30 min)
- ✓ Module 16a (30 min)
- ✓ Provider Enrollment
- ✓ Partnership Election 4th Quarter, 2016
- ✓ SCPMG 2016 Executive Evaluation
- ✓ 2016 Physician Leader Appraisal
- ✓ Annual Partner Professional Review 2016

### Policies and Guidelines

SCPMG Physician Policies &

### Ed's Corner

## Welcome to Ed's Corner

August 15, 2016



Dear Colleagues,

I am excited, humbled and deeply grateful for your support for my ratification as Executive Medical Director for a second term. I look forward to thanking you in person at our upcoming physician offsites, but in the meantime I recorded this brief video to let you know how much your support means to me. What we do is a team sport. We succeed together. I look at what we have accomplished with great appreciation, and I look forward to the future with confidence and optimism.

To view the video, [click here](https://player.vimeo.com/video/177640024), or post this link into your browser: <https://player.vimeo.com/video/177640024>

To read the full text of Ed's Update and more features, [click here](#)



Thompson M.D., Lester D.  
Pathology  
Woodland Hills

Enter last 4 of SSN

### Inside VE



**California End Of Life Option Act -- Frequently Asked Questions (FAQs)**

On June 9, 2016, in the State of California, it will be legal for qualifying terminally ill patients to request life-ending medication from participating physicians. Read this [Frequently Asked Questions](#) document to learn more about the law and Kaiser Permanente's involvement.



**Easier Access to Your 401(k) Plan and Keogh Plan Accounts**

Convenient, single sign-on access to your 401(k) Plan and Keogh Plan accounts is now available by clicking on the HR & Financial tab in the Quick Links menu and choosing the link for [Schwab Retirement Plan Services, Inc.](#)

[View All Articles and Sections](#)

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### California Paid Sick Leave

Effective July 1, 2015 Per Diem Physicians and Podiatrist Per Diems accrue Paid sick leave under California Healthy Workplaces Healthy Families Act of 2014. Per Diems accrue 1 hour of paid sick leave for each 30 hours of work. See Q&As under quick links or contact PHR Shared Services at 608-0044.

### What's Hot

### Shortcuts

- o KP Health Connect
- o POINT
- o DME Formulary
- o KP Pharmacy
- o National Clinician Directory
- o Inside KP All Site

### Quick Links

- HR & Financial
- ▶ Physician's Work
- ▶ Education/Practice

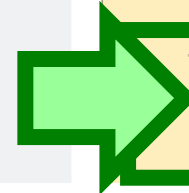
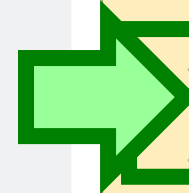


## California Paid Sick Leave

Effective July 1, 2015 Per Diem Physicians and Podiatrist Per Diems accrue Paid sick leave under California Healthy Workplaces Healthy Families Act of 2014. Per Diems accrue 1 hour of paid sick leave for each 30 hours of work. See Q&As under quick links or contact PHR Shared Services at 1-877-608-0044.

### HR & Financial

- 2016 Payroll Calendar
- 2015 Payroll Calendar
- Bank of America Mortgage Center
- Benefits Handbook
- California Paid Sick Leave QAs
- Compliance (SCAL)
- Expense Reporting (OneLink)
- Homestreet Bank
- Hurt on the Job?
- Inventory Management Systems
- KP Retirement Center - Common Plan
- Medicare/Medical Self Enrollment
- Permanente Professionalism
- Physician Hiring Toolkit
- Schwab Retirement Plan Services Company



# Kaiser Permanente Retirement Center



## Returning Users

Log in to your existing account.

**Submit >**

[Forgot User Name or Password?](#)

## New Users

Register your account now.

**Get Started >**

## Active Employee Login

Active KP Employees &  
Sign On Here with  
NUID and password

## Help for New Users

- Helpful hints for accessing your account
- Recommended browsers



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## Social Security (OASDI Trust Fund)

- ✧ Will it still be there for me?
- ✧ Balance on 12/31/2016: \$2.848 trillion
- ✧ 2016 results:
  - ✧ Total income                      \$957 billion
  - ✧ Total expenses                    \$922 billion
  - ✧ Net increase                        \$ 35 billion

[www.ssa.gov/oact/STATS/table4a3.html](http://www.ssa.gov/oact/STATS/table4a3.html)

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## Retirement Plans and Trusts

✧ Go together like peanut butter and jelly

✧ Rules:

✧ **Charity** before **Individual**

✧ **Younger** before **Older**

✧ **Low** income before **High** income

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## Trust and Estates

- ✧ Determine the value of your estate
- ✧ A durable power of attorney
  - ✕ Financial matters
  - ✕ Health care – Advance care directive
- ✧ Everyone needs a will
  - ✕ Only 4% of population has one!
- ✧ Trusts
- ✧ Estate and Gift taxes

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## Credit Report

Check your credit report/scores for **FREE**  
[www.annualcreditreport.com](http://www.annualcreditreport.com)

✧ One free report per company per year

✧ Equifax

✧ Experian

✧ TransUnion

✧ If married – you could get a report every other month

Daily dose

Vitamin(k)

How to Retire. . .by LDRT



## Financial Records Organizer

- ✧ A binder or file system (including electronic cloud based) to store important financial documents that helps families manage their affairs after a catastrophe, illness, disability or death
- ✧ Primary and 2 back-ups
  - ✕ Executor; Trusted relative; safety deposit box