Couple of Surgeons' Guide to Personal Finance:
Breakdown of the Basics: Part 2b

This part of our guide will be more focused on how to actually build a portfolio, whether to pay down or invest, and easy steps to filing your taxes! If you aren't already, you can follow our journey on our Instagram!

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Personal experience with our portfolio:

The White Coat Investor and The Physician Philosopher are major proponents of index fund investing. Back in third year of medical school, my dad gave me some "stock education money." I bought four individual stocks in March 2018 right at a market high and the following months watched them drop over 20%. Luckily, I only had a few thousand dollars in at the time, but after that experience I realized I didn't want to fret over whether my individual stocks would rally or whether they would drop further. This is why our portfolio mainly consists of index funds.

In my opinion, if you want to invest in individual stocks it has to be money you are willing to part with. Everyone goes in expecting to become an expert day trader. The important thing about starting these lessons early, is unlike someone who is putting their life savings into the market, we are learning important lessons with a few thousand dollars.

We hope this part of the guide will help you to start a solid basic portfolio!

Roth IRA vs 401k/403b

Alphabet soup is how I felt about this topic before starting my personal finance journey. In actuality, like the majority of personal finance, it's not too complicated!

Charts are nice and I will have an explanation of the chart on the next page! (These numbers were for 2019, each year it changes slightly)

Account	Roth IRA	Traditional 401k or 403b (Note: these are the same essentially but one is for private employers and one is non profit, respectively)
Eligibility	Single, head of household, or married filing separately: ● Annual income less than $122,000 for max contribution Married filing jointly: ● Annual income less than $193,000	Anyone whose employer offers a plan to contribute
Taxes	Post tax dollars - You get your paycheck and then contribute to this - When you pull it out at retirement you don't pay taxes on it	Pre tax dollars -Withheld from your paycheck and is not taxed going in (you choose how much) -When you take this out at retirement, it is taxed at your retirement tax rate -Lowers your AGI*
Contribution limit	$6,000	$18,000

*Because it is pretax, this lowers your adjusted gross income (AGI) which is in part how REPAYE determines how much you pay.

Example: I contribute $10k to my 403b throughout one year. Normally my adjusted gross income is 48k, but because of my 403b contribution, my AGI is now 38k which makes my REPAYE minimum payment lower the next year. This is because the REPAYE minimum payment is calculated off 10% of your AGI. This means REPAYE pays more of my interest if I make only the minimum payments, lowering my effective interest rate (see Part 1 of our guide for explanation of effective interest rate).

Of note, these income limits change each year, so the chart above may no longer be accurate when you graduate. These are roughly around the income and contribution limits. Additionally, here is a great Investopedia article on the difference between 401k vs Roth IRA.

If the above chart was overwhelming, don't worry I am going to break it down.

Essentially pre tax or post tax contribution is how they are most easily separated. Roth IRA is a retirement account which you contribute to after taxes. This means I get my paycheck, it lands in my bank account, and I transfer my money to TD Ameritrade, Vanguard, Charles Schwab, or whomever I choose to open my Roth IRA account with. Because I was taxed on my paycheck, the money I contribute to my Roth IRA is post taxation. This means when I pull it out after age 59 ½ it will not be taxed.

Now, why is this beneficial in residency? Eventually when you become an attending you will receive a significantly larger paycheck. This means you will be over the annual income contribution limit for a Roth IRA. Technically residency is the only time you can contribute in the normal way to a Roth IRA. (I realize there is a BackDoor Roth IRA, the purpose of this is to talk about normal contributions).

Now on to a 401k or 403b, this is money that you choose to be withheld from your paycheck. You set this up by going to your employee portal and choose how much you want withheld from each paycheck. Let's say I withhold $200 from each paycheck, so around $400 each month. At the end of the year, that is $4,800 I contributed. In this hypothetical scenario, if I only contribute that amount and it grows at 6% for the next 30 years at the end I will have $27, 570. After age 59 ½ I can start withdrawing from that amount at my retirement tax rate (which varies by state).

One other great benefit of a 401k (as well as a health savings account), is that because I don't pay taxes until it is pulled out, any contribution I make lowers my adjusted gross income. This can be useful if you want to increase the amount of REPAYE interest subsidy you receive since it is calculated off 10% of your adjusted gross income. Since I never received the money I contributed, it lowers my AGI and thus my minimum payment for REPAYE. Cool hack!

Personal note: During intern year we did not contribute to our 403b. I talked about exactly what we did in terms of finances in Part 2a of our guides! Any extra money we had we put toward building our emergency fund.

Employee match

One thing to check which is specific to your residency, or employer, is do they offer an employee match?

Specific to a 401k or 403b (aka the pre tax retirement accounts), an employee match is simply your employer encouraging you to save for retirement. An employee match means your employer matches your contribution to your 401k up to a certain percent/amount.

Example: Lets say your employer has an employee match up to $4,000. Essentially, you want to contribute $4,000 to your account because they match whatever you contribute up to that amount! (They additionally match you if you put less than $4,000, but take advantage of that free money). Because you contributed $4,000, you now have $8,000 in your 403b. Wahoo!

In reality, employee match in residency is less common. What our hospital does is they contribute 5% of our gross income and have a vested approach up to 5 years (e.g. if you leave at 3 years you only receive 60% of what they contributed). Each hospital is different, so take the initiative and send an email to the GME office at your institution and they should direct you to the right person.

Questions/Misconceptions:

- *"Which do I max out first during residency? My Roth IRA or my 401k?"*

Generally, the short answer is your Roth IRA. This is because you are in a lower tax bracket than as an attending and with a Roth you are contributing post-tax money. You max out your Roth IRA because you pay less in taxes compared to in the future, and you pull it out at retirement tax free. This is compared to a 401k where it is pre-tax money that is contributed (which is why they subtract it from your adjusted gross income, since you never saw that money) and you are taxed on it coming out. Additionally, you have to be pretty aggressive to max out your 401k since the max is $18,000 compared to a Roth IRA max of $6,000.

– *"I can pull my money out in the future if I need it for whatever reason"* –

Not necessarily. You can pull the money you have contributed with no restrictions since you have already paid taxes on that money. You cannot take out the investment earnings without being taxed and penalized a 10% fee. So, let say you put in $2,000 and three years later the earnings are $3,500. You need the money now so you pull out all $3,500. When you take this out you would pay taxes on the $1,500 of earnings AND are penalized $150 as an early withdrawal fee. Ouch. The other option is you pull out $2,000 with no penalty, but remember you already paid taxes on that money when you put it in. Remember, this is a retirement account, so they do not want you taking out your money early.

-To take this one step further. If you think you are going to be needing the money you are putting into a Roth in the near future, just put it in a high yield savings account instead. Better to not pay taxes on money that you are going to pull out in the future. Just use a regular or high yield savings account and save yourself the money.

– *“I have to contribute throughout the year to the account”* – No, you just have to contribute by the tax filing date, generally on or before April 15 of the respective year. So hypothetically if you are unsure of how much you want to put into a Roth IRA. You can save until mid-March and then decide how much you would like to contribute. This is more aimed at new residents who have yet to build an emergency fund.

- *“I’m married so should I file a joint Roth IRA?”* - No, each of you need to open your own Roth IRA. The same is true with your 401k plans, they will be separate.

- “I don’t have $6,000 to contribute to my Roth, so I won’t contribute” - You can choose to deposit $1 or all $6,000. I think you can even open an account and contribute later if you wanted. Even if you’re not ready to max out a retirement account, that shouldn’t keep you from opening one and starting the process. You learn by getting your feet wet.

Some clarifying thoughts:

- The White Coat Investor always talks about index funds. You buy index funds in your Roth IRA after you contribute. See below for more on this topic.
- For a Roth IRA, you open an account with TD Ameritrade, Vanguard, Charles Schwab, Fidelity or whomever you decide. Why so many people choose Vanguard is because it's mutually owned by shareholders, so less conflict of interest. (Personally, I just don’t find their platform user friendly. In one regard, that is good because you are less likely to fiddle with your money).
- In a 401k or 403b, usually your employer picks your distributions unless you manually select otherwise.
- If your residency has a high deductible plan, they may have a health savings account you can contribute to. I would choose to contribute to this after a Roth IRA.

Building a portfolio

When you’re beginning to learn about stocks and the market, you google terms. The problem is, when you google terms, often they give you more terms you don’t know which doesn’t help clarify your question. This is a large component of why people get overwhelmed, give up, and hire a financial advisor.

The problem with hiring a financial advisor is they take away from your profits. Financial advisors take a 1% – 3% fee compared to options in a retirement portfolio which you can select which have a 0.03% fee.

Examples always help me, so, let's say I hypothetically make 10,000 in earnings every year for 40 years. If I use an advisor with a 3% fee, he takes $300 every year from my earnings because he picked my stocks, whereas my DIY method has a 0.03% fee by buying stocks in my retirement portfolio which takes $3. Over 40 years, the difference is $12,000 I give to my advisor vs $120 I give to Vanguard through index funds. This fee difference gets even bigger the more money you have in your retirement accounts which is why we want to be proactive as much as possible and learn these things for ourselves.

Of course, you are probably thinking "but an advisor is an expert, maybe they are worth that extra fee". Well, there is plenty of evidence that shows this isn't true. Furthermore, it will cost you.

So, I hope I convinced you that learning these terms can help yourself make money!

Terms to know:

Market index – hypothetical portfolio of investment holdings which represents a segment of the financial market.

S&P 500 – an index composed of 500 of the largest U.S. stocks, weighted by market capitalization (= value x how many shares available). Essentially when people use this term its saying the largest 500 companies in the U.S. on the stock market. This index is widely considered to be the best indicator of how large U.S. stocks are performing on a day-to-day basis

Nasdaq Composite – when you hear this term think tech stocks. It is an index composed of more than 3,000 stocks and has a heavy bias toward the technology industry

Dow Jones Industrial – an index that tracks 30 large, publicly-owned companies trading on the New York Stock Exchange (NYSE) and the NASDAQ. The Dow Jones is price weighted unlike the S&P which uses market capitalization. This means the Dow Jones gives investors a different way to look at the overall stock market and how its doing since it uses a different formula compared to the S&P

To summarize and generalize into more digestible terms:

S&P 500 – index composed of largest 500 stocks in U.S. traded on the stock market
NASDAQ – tells me how tech stocks are doing
Dow Jones Industrial – index composed of 30 large, publicly traded companies. Also tells me how the market is doing in a slightly different way than the S&P 500. People call this "the Dow" or "Dow Jones"

When you buy index funds, they are composed of stocks in these indexes, hence the name. How you find these index funds is by using a "stock ticker symbol", usually two or three letters.

Example: **VOO** - vanguard S&P 500 ETF, **VTI** - vanguard total stock market ETF, **VB -** vanguard small cap ETF, **BND -** Vanguard Total Bond Market ETF
After opening an account:

Once you open an account, the next step is deciding if you want your portfolio to be composed of! There are lots of options out there, but don't get overwhelmed, it can be simple. You could literally just pick VTI and have the total market index be your portfolio, and you would do well!

Options include:

1. **Target Based Funds** – where you pick your retirement date and use this as your sole investment vehicle for retirement
2. **Individual Stocks** – often differentiated by "growth" or "dividend"
3. **Index Funds (ETFs)** – passively managed and track an index, such as the S&P 500, the fee is lower since it is not being actively managed. Average expense ratio ~0.09%
4. **Mutual Funds** – actively managed, higher investment fees but the goal is to beat the indexes (which is hard to do). Average expense ratio ~0.82%. Over time will cost you more in fees, but hypothetically if they were able to consistently beat the market, then it might be worth it. Often has a required minimum contribution.
5. **Bonds –** like an IOU – you loan money to an entity and they pay a fixed interest rate to you for loaning the money. There are different types of bond with varying interest rates, but the "safest" is generally governmental bonds. Of note, you can also buy bond ETFs.

Things to consider when choosing your portfolio:

1. **Trading costs/commission free options** – at the very beginning, you need to know how much it costs to make a trade. TD Ameritrade, Vanguard, and Charles Schwab offer commission free trading now. This makes a difference if you're planning to dollar cost average / trade regularly over time. If each time you trade it costs you $7, and you aren't trading with a large amount of money (aka residents), then it's costing you too much.

2. **Expense ratio** – how much do you pay each year to be involved in the ETF. There are a multitude of ETFs that track the same index. For example, for VTI – Vanguard Total Stock Market ETF – which tracks the total stark market, the expense ratio is 0.03%. So, for $100 invested each year, it costs you 3 cents. This is why index funds are awesome! The overall expense ratio is less than mutual funds or a financial advisor.

3. **Decide what index you want to track** – there are SO many options for index funds and deciding what index/sector etc you want to track is another decision you have to make. Most commonly, the decision will be do you want to follow the S&P 500 (essentially 500 large companies) vs the total stock market index (all stocks including small, medium, and large companies). You can break this down further and buy indexes of small/mid/large cap companies, health care, communications, real estate sector etc.

So what does it all mean?

Personally, we just go with a variation of the Physician Philosopher's lazy portfolio.

- 30% Large Cap Index Fund
- 30% Mid/Small Cap Index Fund
- 20% International Index Fund
- 10% Bond Index Fund
- 10% Real Estate Index Fund

Feel free to start basic and just buy VTI, then work your way up!

Why is maxing out a Roth IRA in residency a solid move?

1. Behavioral finance – start good habits early. It's easy to say, "when I have more money, I will be responsible", but the truth is as a resident you are making around $56K+ which is more than the average American. The temptation to spend more money when you make more money will be present as an attending, so starting good financial habits early is key!

2. Return on investment – Let's say each year of residency I max out my Roth IRA and hypothetically we get a 6% return on investment annually. For every $6K invested, with the help of compounding interest, it will grow to around $60K by the time we withdraw it in retirement! 💰

Here is part of our post from when we maxed out our Roth IRAs for the first time:

“Merry freaking Christmas! We did it! With this last paycheck of the year we finished maxing out both our Roth IRAs for the year! Are there too many exclamation points for just the first three sentences? I think not!!!

It feels great to accomplish one of our first financial goals. We started residency in July and began our journey in the world of adulting. I originally had the goal of maxing it out before tax season (April 15, 2020), but it worked out and we were able to do it early.”

To Pay Down Debt or Invest

This idea is something I have really thought a lot about. More commonly when you read blog posts it is more straightforward for people who have just graduated and enter the workforce as a nurse or PA, or graduate residency and become an attending. The pay down debt vs investing waterfall looks something like:

1. Pay the minimums on all debt
2. Build a 3 month emergency fund
3. Employer match
4. Pay off high interest debt >8% (e.g credit cards)

And then after that the variation goes between maxing out your retirement accounts and paying off moderate to low interest debt.

Important decisions include:

- **Risk tolerance** - investing is not risk free, paying down debt is a guaranteed return in that you are taking down your debt. If I have an interest rate of 5% on my student loan, paying down my debt guarantees I won’t be paying that 5% in the future (unless I stopped paying my loans)
- **Emotions toward debt** - how much does debt bother you? (i.e. for The Physician Philosopher despised debt and termed the “snow plow method” for paying down debt.
- **Anticipated return on investment** - if my interest rate on my loans is 2.5% after refinancing but on average the market will give me 6%, then mathematically it makes more sense to invest.

In reality, this decision is personal. If I were graduating as a PA or nurse and had no high interest debt, I would probably pick a happy medium where around ⅔ of my income would go toward debt and ⅓ toward investing. As a resident, after maxing out my Roth IRA and building my emergency fund, I could either choose to put money toward my highest interest rate loan, toward my 401k/403b, or health savings account (if you have the option).

Things friends have done:

- One friend lived with their parents during residency and put every bit of savings toward their student loans. He paid a significant chunk down on his student loans.
- One person lives rent free, her and her husband max out their Roth IRAs, contribute significantly to their 403bs, and also put money toward her student loans.
- One couple put most of their interview expenses on a 0% APY for a year during MS4. During intern year, they contributed some toward their Roth IRA but focused more heavily on paying off their credit cards prior to the interest free year ending.
- I know some friends who only max out their Roth IRAs.

For us, now that we have an emergency fund, next year we are thinking of a happy medium where we max out our Roth IRAs, contribute $200 a paycheck to our 403b, and the rest will go toward student loans.

Other than first paying off high interest debt, the steps after that should be based on your risk tolerance and attitude toward debt. Most people don't look back and say "oh darn, I wish I hadn't paid off all my debt".

Filing Taxes

Standard deduction vs Itemized deduction

I ended up looking these two terms up after reading "Ten Guiding Principles for Debt Management" and I came across a line I didn't understand. It was in the third point where he said "student loan interest is deductible as a resident but not as an attending. Conversely, mortgage interest may not be deductible as a resident due to the standard deduction being more than your itemized deductions, but not as an attending."

Since I had no clue what he was talking about (why can't I deduct my mortgage as a resident??) I ended up looking it up.

Itemized deductions: expenses allowed by the IRS that can decrease your taxable income.

Standard deduction: flat dollar, no questions asked reduction in your adjusted gross income ($12,400 for individuals and married couples filing separately, $18,650 for heads of household, and $24,800 for married couples filing jointly).

Above the line deduction: tax deduction you can claim without itemizing

The WCI is saying as a resident you can't deduct your mortgage simply because you don't have enough itemized deductions to go over the standard deduction (for us it would be $24,000).

Additionally, as a resident you can deduct your student loan interest in addition to the standard deduction because you do not make over the income amount where it is no longer allowed ($85,000 if you're single or $170,000 if you're filing jointly). It was helpful because when you file your taxes on TurboTax they end by saying "we think you qualify for the standard deduction" and it all made sense!

Student Loan Interest Deduction

Because you read the above dull introduction to itemized, standard, and above the line deduction, you now understand what above the line deduction means!

The student loan interest deduction is an above the line deduction - aka in addition to the standard deduction on your taxes. I found a good article which says "The student loan interest can be very valuable. If you're in the 22% marginal tax bracket, a $2,500 student loan interest deduction translates to $550 in tax savings."

For us as two interns, since we started working in July, we ended up in the 12% tax bracket when we filed our taxes. It wasn't quite $550 in tax savings this year but slightly less. However, any other year during residency it will be closer to $550 in tax savings! So we plan to do this every year during residency.

Feel free to check out this article regarding other deductions. We didn't qualify for these, but you might!

Easy Steps for Filing your Taxes

When we filed our taxes, it took a couple of hours and we got back around $4,400 total from state and federal. Next year likely it will be less, but follow along to find out!

Here are some tips for filing your taxes:

1. We bought **TurboTax** at Costco! I paid about $55 for the Turbotax Premier (because I bought stocks/had dividends last year) and with that you get 5 Federal E-files and one state return. This was great because my family used my license code to file their federal tax returns and then only had to pay for their state returns.

2. **Things to have ready**: W-2 (work form) and 1099 forms anyone has sent you. For example, we both had W-2s from work and tutoring. We also had our 1099- INT form that Citibank sent us for the interest from our high yield savings account. I also was able to link in my investment accounts and TurboTax brought in the dividend/capital gains from there.

3. **Mortgage interest** – we went to our mortgage site and downloaded the form they gave us that listed the home loan interest we paid.

4. **Student loan interest** – we paid $2,500 and my loan servicer provided the form

5. If you are a student, you can go to your student account and download the **1099-T** (under finance section on ours) and you get a small deduction from student tuition paid!

We qualified for the standard deduction. Then after filing federal returns TurboTax moves on to state returns. The day after submitting, I was notified our tax returns were accepted!

Our tax returns went straight toward our emergency fund!

Conclusion:

You made it! We hope this was helpful and introduced various topics which are key to setting yourself up for financial success. We made this guide free with the intent to aid students who are transitioning to the workforce. If you felt this guide was helpful, please spread the word and share with all your friends!

If you found this guide helpful and want to follow our journey on Instagram or subscribe to our blog, we appreciate the support!

If you have any questions, feel free to message us!

With love,
Parisah and Braden

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