FIERCE FREEDOM AWAITS

with Dr. Yashika Dooley

Episode 5 – Get Your Financial House in Order with Dr. Anne Champeaux

Welcome to the Fierce Freedom Awaits podcast, episode number 5. This episode is all about money. We are talking financial freedom and the simple steps to have your money start working for you. We are going to be breaking it down into easy to understand pieces. If financial freedom and getting your financial houses in order, this episode is for you.

Yashika: Hello again, ladies. It's Dr. Yashika Dooley again, and I'm excited to have you hear from Dr. Anne Champeaux, who is an Academic Pathologist, and has lots of information to share about finances, and why we should be talking about this. Welcome.

Anne: Oh, thanks for having me today. It's great to chat with you.

Yashika: Thank you so much. So I have been following you on Facebook for years now and have learned a lot.

Anne: (laughs)

Yashika: So I am so excited to share with everybody, kind of, all the information and really talking about financial freedom, and having some choices in our life, and, as we know, that really does start with our money.

Anne: Correct. Correct. And it really is important that we're talking about this. You know, that's really one of the problems. It's been such a taboo subject for so long, um, especially, uh, for people like us, physicians, who go through all this training, and you get to a point and no one's really talked to us about the subject because, you know, "Don't talk about your finances."

Yashika: Yeah. And we've been so busy just learning medicine and stuff all of that into our brains that we have been racking up debt but not at all looking at the bills that we're racking up, or learning anything about these simple steps that we can take to prepare ourselves for the future.

Anne: Correct. Correct. And it's not that complicated. You just, you know, just a little knowledge to get people on the right track. Um, you know, some people will go out and seek help, but really the help, if you do seek help, i.e., like a financial adviser, it is truly most useful if you do actually have some knowledge yourself to make, you know, informed decisions together.

Yashika: Absolutely. So I think the best place for us to start, really, is with our budget. So you want a kind of go from there and tell us ... Just walk us through. Tell us what we should be doing here.

Anne: Sure. So the first thing ... I liked to just start from the beginning. So when someone, especially, you know, we're kind of addressing physicians in general, but anybody that, you know, is starting out in the workforce, and they start collecting their first, you know, sizeable pay check, the- you kind of have to think about it, you know, kind of like a pie, and how to divvy up the pieces, but none of it really will work unless you have a budget, or at least understand the ins and outs, the Is and the Os; what money's coming in every month, and what money's going out.

And this is really easy to do in 2018 because, you know, you can literally do it on your iPhone. There's great apps, uh, that are- have budgeting tools. You know, you no longer have to go out and write it on a piece of paper at the end of the week, but there's nothing wrong with a pad and paper, either. But, you know, just to sit down, you know, look at all your bills, all your spending, because in reality, a lot of people really don't realize what's going out until it's on paper and they look at it, you know? Every single little thing adds up, you know? The Starbucks every day, you know, the Netflix account, the Hulu account, the gym membership, shopping at the mall, and all those kinds of things, they add up very quickly. It's no different than when people are trying to lose weight and actually, um, count calories every day, and literally write down everything they eat. Sometimes it's very eye opening.

Yashika: Absolutely. So how would you recommend that people kind of just start? Do you say, "Let's look at, like, what you've spend for the past three months," or, "Let's look at what your, kind of, static bills are, and start recording those." What should they do?

Anne: Right. So a lot of times when we hear some of these, you know, financial physician experts or gurus, you know, they'll always say, "To be successful, financially, you should, quote, live like a resident, end quote, the first few months out of training." And so from our budgeting standpoint, that really ... You should start at ... Look what you're doing now, in terms of right before you started collecting a larger pay check, and try to kind of stay that way for just a little longer until you can get a really, really good idea of what's going in and out.

One of the biggest mistakes people underestimate when they go from a training status, like a resident, or a fellow, into an attending position or an employed or private practice position is, uh, their tax liability. So they get ... End up with a huge tax bill that's not really budgeted in. So without a basic budget to start with, it's really hard to tack on some of these extra expenses that will come along the way, particularly even in the first year, right, uh, during you first, uh, employment. So I would recommend, you know, see what's been going on for the last, you know, a month or two, budget a few extra months, and then start to make some conscious ... Conscientious decisions about what you're going to do with your money.

Yashika: That makes sense. So, one of the things that I find is really interesting, at least for my own residents is a lot of them are having families, and so even though they're not trying to increase expenses as they come out of residency, they automatically increase their expenses, because now they're having babies towards the end of their residency, or while they're in a fellowship, or they have now started a family, they've gotten married, and so there is this natural progression of expenses, so even though you're trying to live like a resident, the actual lifestyle you had as a resident may have actually changed during residency. How do you account for that?

Anne: Well, I think that's, like I said, and that's really important to really look at what's happening to your money, and you can even look, like, "Look at- our expenses are going up. We're going to have to do something." Um, and generally without extra income, the only way is you have to live on less than you're making, that's the only way to come out ahead, otherwise you're going to be living in the land of debt, so, um, by having your budget on paper that you can see it every month, what's going in and out, you really get a good idea that you can actually see it creeping up, so if you see that happening, obviously you should make a decision, like, "Yeah, maybe it's not a good time we buy that brand-new Mercedes," you know? Because you really can't afford it, because obviously you have other liabilities, especially children. You're not going to leave them starving so you can get a new car, so ...

And things like child care are very expensive, um, and, you know, they just are expensive over time. So, um, yeah, it's difficult because, you know, unless your children are planned perfectly, you know, like, some people always say, "There's never really a good time, so you just have to ... You know, it is what it is." Look at what's coming in, what's going out. So that's my first recommendation.

And then, um, the second one is, you know, there's going to be two people you have to pay, and obviously the first is you have to pay your taxes. So the big chunk, uh, from those positions is your tax liability that's going to get carved out of that um, pie. And, like I said, a lot of residents forget, um, that the first year, year and a half, uh, out of their training when they are making more money, that their tax liability also increases. So that's fine, but then you can- there's ways to mitigate that, and one way is to understand what your employer benefits are, because a lot of employer benefits have pre-tax advantages. So what that means is money's coming out of your pay check before it's even taxed, so that when you file your taxes for that year it looks like you made less, and i.e., you've then paid less tax, so, um, at the- at the same time, that's money you're saving for retirement. So you're really killing two birds with one stone; you're saving on taxes and you're putting money away for retirement.

Um, so, from your first pay check, you know, carve out the pieces going for taxes, carve out the piece that you're going to use your employer benefits for, and then you're going to have to live on the rest, and it can be quite shocking, actually, what's left.

Yashika: Yeah.

Anne: It's- It's really not as much as people, uh, would like to think.

Yashika: Absolutely. Definitely not after taxes. I mean-

Anne: Correct.

Yashika: ... if you are really planning well, um, yeah, it makes a huge difference, and then you see why people feel they have no money left at the end of the month, or at the end of the year. (laughs)

Anne: Correct. And what ends up happening is, you know, a lot of times they'll short these employer benefits because their lifestyle has gotten such that, you know, they're going to use the money to pay for those things rather than put it away and save for retirement, and like I said, those, uh, have some consequences. One is you're probably losing the pre-tax benefit, and another huge benefit, which some people don't understand, is a lot of these employer benefits come with a match. And it's not a match like, I put in the dollar, they put on a dollar, it's a match like I'll put in some and then we'll put in some, and it's usually a percentage, and that's free money on the table, um, that you're going to, you know, if you don't, uh, put the money in, they're not going to put their money in, so it's really, you know ... They're giving you extra money for your retirement. Now, granted you don't see that money, but that's a huge benefit.

Yashika: Absolutely. And it- it adds up quickly over time.

Anne: Oh, yes, definitely. Right, because it's invested and so it's going to compound. Obviously, it will depend on your allocation and the risks that you're taking, but, you know, the average rule of thumb over time, if you want to be on the conservative side, you know, five to six and a half percent growth rate outpacing inflation, you know, over the life of your career that- or over the time over your career, that's going to, you know, really exponentially grow.

So I always recommend when people are coming out that ... Some really don't understand those employer benefits at all. You know, they'll sign contracts just with, really, one-liner that you get retirement benefits. They don't even understand what they're getting. So I think it's really important that's another area to, uh, when we're starting is just to understand the lingo of employee retirement benefits.

Yashika: So let's talk a little bit about some of those pre-tax retirement plans, um, you know, what kinds there are, and what they should really be looking for when they're starting to just do some real basic investing in these.

Anne: Sure, so the most basic type is, uh, most people are probably heard of it, it's the 401(k). And there's a sister to that, which is the 403(b). They're basically the same accounts, it just depends who you're working for. A 403(b) is generally a plan offered by th- the

State or Federal government, and a 401(k) is a plan that's offered by a private institution, um, or a private, you know, corporation, or an employer, so ... But they're-they are equal.

And the IRS, they, uh, dictate how much you can put in every year, and so, currently in 2018, the employee can contri- contribute $18,500, and, like I said, that's pre-tax money, so it's money that's ... It goes into the account, and the IRS never sees it, so you never pay tax on it now. Now, these are tax-deferred accounts. There will be some tax consequence later, but the whole idea is, during your, um, prime working years, you're gonna be in a much higher tax bracket than when you retire and actually pull that money out.

Then, like I said, it's employer-dependent, but many will offer some sort of match, which means if you put in money, we'll put in money. And like I said, it's usually a percentage. That percentage is also ... Um, the percentage isn't limited, but the actual value of the money that goes in by your employer is limited by the IRS, and currently in 2018, it's $55,000.

Yashika: Yeah, and I think the other thing to know is that this is really easy to do. Um, a lot of times they will have somebody, like, in Human Resources that can kind of walk you through what's available at your hospital, or what plans are available, and you really don't need anything more than that. You don't need a financial adviser, or anything like that, to be able to, um, allocate that money and get it started, and even if you just start it, and then you start to read and learn, I mean, that's better than nothing. Start someplace.

Anne: Right. Correct. Correct. Most places, when you in-process, their Human Resources will set you up, you just have to put in the dollar amount you want and usually the percentage of the, you know, pay check each week, and they'll figure it out. A lot of it will come out incrementally over the year, so you don't put in the whole amount at once, but some employers will allow you to do that, but the basic gist of it is you just want to get to the 18,500, if you can, at the end of the year, because that would be the ideal; is to maximally contribute to it.

Um, it'll generally go in as cash, but yes, it's also true then you have to designate how you're going to allocate it, and that's where some people get hung up, um, but it can be really easy. A lot of these plans will just offer, like, a target fund that's generally the easiest, that basically is based on when you're going to retire, and the money self-allocates.

Um, the second easiest is probably ... And even is probably more economical because the fees associated with it are better, are index funds. And you can get all fancy and do other things, and mix-and-match your allocations. A lot of these employer plans online will have tools to figure out how you want your money allocated based on your risk. So, like you said, you don't need anybody telling you to do this.

You know, understand what employer benefits you have. Most will have a 401(k) or a 403(b). Another plan to look for, particularly if you work for a government institution, is a 457(b). It's similar. It's pre-tax money, same, uh, contribution limit; 18,500. It's a little more quirky, particularly if you work for a non-government, uh, employer, but, uh, it's just worth noting that there is other options to put even more money away.

And then finally you can even put money away for yourself, so anyone can open up an IRA. They come in different flavors as well. There's a Roth, has income limits. There's a traditional, there's ways to put money in a Roth even if you make too much money. Um, I ... we don't really have a whole lot of time to talk today about that, but just to know that beyond your employer accounts, you really should try to set some money aside for yourself as well. Particularly, the other thing, is an emergency fund. It's recommended that everybody sets aside some money should something happen, uh, that's unpredicted that you may need to just come up with, you know, a fairly large amount of money to pay for something. You know, generally, family emergencies, home emergencies, you know, new cars; things like that. So the general recommendation is sometimes three to six months of expenses you should start to hoard away. Um, some people have different arguments if you have good credit. They say, "Well, save less, and you can always put some on credit, and then when you recover it, just pay off the credit card." There's different philosophies, but just to keep in mind that you should always have the stash for a rainy day, should something happen.

Yashika: That is a great idea and, as we all know, especially if you have your own home, or if you own a car, something always is going to happen. I mean, it's inevitable.

Anne: Right? I mean, the statistics out recently said that the average American can't ... cannot even afford to pay for a $400 emergency, which is really sad if you think about it.

Yashika: Yeah, absolutely. And one of the things that I always try to talk to my residents about, especially if you are married, is to consider living on one income. That gives you a lot more cash to work with, instead of thinking that, "Oh, I have all this money." Sometimes that's one of the ways ... and I think you said that's one of the things that you did early on to kind of get your cash flow moving.

Anne: Correct. Right. I mean, it's ... I mean (laughs) I wouldn't tell someone to run out and get married just so you have extra ... extra cash flow, but if you do live ... If you do have two incomes, particularly high incomes, I mean, there's no reason you need to spend away two incomes, you know? It just doesn't, at least for me, does not make sense to live lavishly like that.

So, um, when you're doing your budget then, you know, you can take that entire extra income and really just stash it. That's your emergency. That's your retirement pot. That's your money you're putting away for your kids' college. Um, and then you just have the one inc- the one pie kind of carve out still taxes and your bills, and you're actually will probably still have a decent amount of money to, you know, live, you know ... I mean, not like you live in a tent, right?

Yashika: Yeah. Oh, well, absolutely. I mean, and I think even you talk about this in your article, but, you know, there's no reason why physicians shouldn't be able to live very comfortably below their means and easily get out of debt. I mean, the average, or the median household income in the United States was, like, 55,000 in 2015. And so, the average resident is making right around there. So if you have two physicians, I mean, you're easily above that level.

Anne: Right. The problem really comes is ... the lifestyle creep and the societal pressures-

Yashika: Yeah.

Anne: ... that, once someone becomes a practicing physician, they start to have these thoughts of, you know, "I'm going to get a really nice home on the beach, really, you know, large, fancy house. I'm going to go run to the car dealership and buy a brand spankin' new Mercedes or a BM ... " You know, because that's kind of what's been ingrained, you know, in our society of the, you know, "What does a doctor's lifestyle look like?" And, you know, there's not a whole lot of reason to go out and do those things, particularly if you're in debt with huge amounts of student loans, and mortgage payments, and consumer debt, and what not.

Yashika: Yeah, and like I tell a lot of my residents, there is so much time for that. If you pay off your debt and your student loans now, um, you're going to then have so much more free income, and then you can start looking at passive income sources that can really generate much more income flow for you later on. So if you just plan to pay off your debt now, you're going to have so many more opportunities in the fut- future to really get that ball rolling and to really be able to save in a way that you never would have expected previously.

Anne: Oh, definitely, definitely. I never thought of myself and my family that we lived, you know, on a skimpy lifestyle. You know, we always had a nice home, and, you know, we didn't drive luxurious cars but we had a Honda, you know? I mean, which is a nice reliable car.

Yashika: Yeah.

Anne: And the, you know, we drove it 'til is literally died, and then, you know, as time goes and you're saving all this money, and outside of your employer accounts, you know ... Like I said, you can save for your emergency fund but you can also just save for yourself, which is what we did. You know, you get to the point and, you know what? You have this very nice stream of income, and guess what? You know, I can go out now and buy a fancy car if I wanted to. I mean, it's still kind of ingrained in my personality that, you know, that might not be me, but, you know, I- I can go on a nice trip and I don't have to think twice. I can go and buy a brand-new suit and a brand-new handbag, and shoes, and you know, you just have the means to make the choices if you want to.

Yashika: Absolutely, and that is, I think, the ultimate freedom. It's having the means to make the decision, whether you choose to buy it, or whether you choose to do whatever is fine, but it's being able to have that opportunity to say, "If I wanted to buy that, I could," and you wouldn't have to think twice about it, and that's amazing.

Anne: Right, and so that's the whole concept behind what ... this movement called financial independence, you know, and some people tack on the RE, Retire Early FIRE movement. You know, it's not so much about hanging up the hat, um, that you can't, you know, quit your job, but you have the option to quit your job you want to, because you have established financially secure, that you can make a lot of really good decisions, and not really have to think twice about it.

Yashika: Yeah, and I think it also helps you to have some independence and clarity in your job. You don't have to accept any job. You don't have to accept any specific stipulation because it gives you little bargaining power. I mean-

Anne: Oh, yes. Cor- I think, I believe that, especially as the female physician, when-

Yashika: Yes.

Anne: ... You know, if you walk into an employer and you don't need them to pay your mortgage, you don't need to pay your bills, you know? You don't need to work full-time anymore, you know, you have a lot of bargaining power.

Yashika: Absolutely. And you can just wait for the right thing, or the right job, to come along. You can reduce your hours, you can make your hours fit the lifestyle for you and your family, things that you just really can't do if you have bills to pay. I mean, the bills then run your life, unfortunately.

Anne: Right. And don't get me wrong ... I mean, the bills are going to happen, and I have to ... You have to kind of remind people that this doesn't happen overnight. And I think that's the one thing about this FIRE movement that I'm kind of seeing, is that some people don't realize that it doesn't happen overnight. It does take a little bit of time to get to that point, you know, unless you really making a lot of money and not spending anything.

But you know, you don't want to, you know, totally live ... I mean, some people to live really, really frugal but, you know, I never ... I still like to go out to eat and I still like to go on vacations, so we always spent some money, obviously, through the years, but, um, our savings rate far out passed, you know, what the average American would- would save, as well as we have always spent less than our pay check.

Yashika: Yes, and I think it's easy, especially if you do a really good budget and you see where your expenses are, it actually gives you real clarity on what's not that important to you; the things that you're not using, but they're kind of auto- on auto-pay, or auto-debit, and so now you can now start eliminating some of those things, and once you eliminate some of those, it actually frees up quite a bit of money for that nice family vacation that you want to take every year, or, you know, whatever it is, and so then-

Anne: Yeah.

Yashika: ... you can kind of real align what's important.

Anne: And like I say, you really have to see it on paper. I mean, I kind of had guesstimated one year. I'm like a Starbucks addict, and so, you know, I kind of guesstimated. You can do the math, and everything. But literally one year and went through the credit card statement and, you know, circle every single Starbucks. It was over $3000.

Yashika: Wow.

Anne: And that's just-

Yashika: What-

Anne: ... Yeah, and that's just Starbucks. And so, like I said, you start adding up all these, you know, gym memberships, and you know, now everything is like streaming memberships-

Yashika: Yes.

Anne: ... And, you know, electronic bills, and all kinds of different, you know, gadgets and whatnot, and you know, it adds up very quickly, and do you need all of it? No. If some of it okay? Sure. You know, I mean, some people love their Amazon Prime membership. Do I need it? No.

Yashika: Yeah.

Anne: But you have to really understand what's coming in, what's coming out, and you have to live below what you're making, otherwise you will never come out ahead.

Yashika: Absolutely, and I think that, just in a long-term, causes so much anxiety and stress for many physicians, and actually probably is what contributes to a lot of their burnout; picking up extra shifts and feeling like you have to see more patients, generate more views cause you're trying to hit a bonus, or whatever. I mean, you feel like you're constantly go, go, go, go, go for that dollar.

Anne: Well, right. And part of it then adds on is the lifestyle creep. I mean, if you end up buying a three million-dollar home that you really probably shouldn't have been able to afford, it's going to really stretch you, and what they call, you know, house poor; that basically you're working just to pay that mortgage and you can't really afford to do anything else. People have to remember, you know, the banks and the realtors will always sell you more than, you know, you probably need, so, um, you have to ... That's why knowing what your budget is and what's important to you is very ... is a realistic goal.

Yashika: Yeah, and especially with these Doctor Loans. I mean, you can get what they called this Doctor Loan with no money down, and then they give you, like, these no interest kind of period ... I mean, there are so many ways that they make the numbers work. I mean, yeah, if you get a 30- or a 40-year mortgage and you're paying almost nothing a month, they do make it seem like, of course you can own that three million-dollar house on $150,000 a year, but they don't actually show you how much more you are going to end up paying for that house over 40 or 50 years.

Anne: Right. The other thing to remember, you mentioned kids before, and, you know, expenses with kids is quite challenging. And I always say it's kind of like a rollercoaster, in effect. You know, they start out fairly cheap when they're very young, and then it kind of gets a little big because you have to accommodate for childcare expenses, and then it might ... The roller coaster's coming down because they might ... They're kind of any age they started public school, so they're not really involved in much activities yet. And then up picks again because they're going to start doing extracurricular activities. Then they start to drive (laughs) you know, and then they might go back to ... And then college comes. It's just ... It's kind of this rollercoaster, and at the end of the day I'm a big fan of, "They never get cheap." (laughs)

Yashika: Yes. No, I think the expense just changes. It just shifts from one thing to another.

Anne: It just shifts, yes. Totally. You know, I mean, I know a lot of people will say, "Oh, it will be much better once my childcare costs go away." Granted, that is a fairly large chunk, but you know, there are activities that get very expensive. Food gets very expensive, especially if you have boys and they eat a ton. You know, saving for college, you choose to do that, it's the huge expense, so ... Travel, you know? Every kid, you know, they can't sit on your lap anymore. All these kids, they need their own ticket. You know, the costs just add up, and so, like you said, it just moves one expense to the other. But, uh, people find a way to do it, but you know, you're going to have to make some really good choices, though, then.

Yashika: Absolutely. And so, um, while we are talking about paying down debt, I know there's a couple of different ways that we can look at for doing that. What, kind of ... What are some of the things that they should explore if they're looking at, I guess, credit card debt versus student loans?

Anne: Well, there's different ways, but probably the best premise is, you want to get rid of the high-interest debt first because obviously that's just your ... Every dollar extra in interest is just going to somebody else, i.e., the bank, so you want to get rid of high-interest debt first, and primarily that's consumer debt, credit card debt. So if you have any type of credit debt, really try hard to get rid of that first. Then there's a big argument between things like, mortgage debt and student loan debt. Once again, you have to look at the interest rates. And there's been a lot written. Uh, Dave Ramsey's kind of one of the, you know, gurus on debt management, and you know, he uses the snowball method, which, for many, is psychologically rewarding. So basically you pay off the smaller debts, even if the interest rate's a little higher, and then that debt's gone. Then use the money that was, uh, used to be going to the debt and start rolling into paying to the next debt, and you basically get this bigger and bigger snowball, and eventually all of your debt's gone. It's very psychologically rewarding to do it the way than trying to chip away at the highest interest loan.

So a lot of people will do it that way. For us, you know, at one time we had that. We had a mortgage payment. We always paid extra to the mortgage. I just budgeted that in. So if our mortgage payment was $2000 a month, I paid $1500. And you have to ensure that extra money goes- goes towards the principle, and before you know it, you know, your loan is gone. So, um, but I budgeted that in to get rid of the mortgage payment. Just chip it away, budget it in. Try to pay extra. Hit the high interest rates first, you can consolidate loans, um, that have high interest, um, interest rates into lower interest rates. That's, you know, one mechanism that people will try to do. So if they have three, four different college, student loans, they'll try to consolidate it all into one loan with an fixed, you know, rate.

Yashika: Yeah, that's great. And speaking of college, I ... I mean, I have two kids, and I know you also have a child (laughs) but it's ... I think one of the things that I was really intent on was making sure that I saved for college. And I know there's a lot of different theories on that, and, you know, some say you should pay down your own debt and worry about your own retirement first, and college can be something that your child, um, kind of, should worry about. But let's talk a little bit about some options for those that do want to consider saving for their child's college.

Anne: Right. So I do agree you need to take care of yourself first before your kid, um, but after that, once again, just, you know, budget it in. Um, and budget it in before the Mercedes, but ... And it doesn't take a whole lot. Um, we saved for our son in what's called the 529 plan. It's probably the most common tool for parents to save for their children's college. It's a tax-sheltered account for educational purposes, and if used for educational purposes appropriately, when the money's pulled out, it's tax-free. So it's growing, tax sheltered, you don't pay any taxes while the money's inside growing, and then when you pull it out appropriately for the education, there's no taxes on the tail end either, so it's a great way to save.

Um, the biggest risk is, you know, "What if my kid doesn't go to college?" Or this, that or the other. Um, if you have more than one kid, you can change it to the younger kid, you can change it to a niece, to a nephew, you can use the money for yourself, so it's actually more flexible than people think. Um, but you don't have to, like put a ton of money in it either. You can say, "Well, I'm going to put half of theirs in that, then maybe we'll just pay the rest out of our own money," or, you know other ways, you might have passive rental income to pick up the other percentage.

So , um, it's not an all or nothing. So you don't have to, like, do a 529 and say, "Well, that's the only way we can pay for the college." So I think that's what some people get caught up on, but it's a great tool to have a pot of money to be used for higher education. And nowadays you can actually use it for private school as well, uh, pre-college high school and lower school.

Yashika: Yeah, and I think if you just consider putting away something, anything, even if it's a small account, if you can, when your child is born, I mean, that money is going to accrue, you're going to have that compound interest, and, you know, over 15, 16, 17 years, especially with it being in the market, I mean, you're going end up with a good, sizeable amount. And as a person who went to college with no money coming from my parents, I mean, anything at that point is very helpful. I mean, just to buy a couple of books is great, so I feel like, don't feel like you had to pay for the entire college. I mean, maybe they'll get scholarships, or there are so many options, but just having some money set aside really does lighten the load and take off some of the pressure on both you and your child.

Anne: Oh, definitely. And like I said, it didn't need to be a lot. I mean, part of it is because of growth. Now, granted, we ... When we were contributing, the stock market was not very good. And so we were putting money in at the all-time lows, and we actually took advantage of ... We're pulling it out now. If we would have needed to ... We don't need to because he's getting, you know, scholarship money, so the, uh ... I put in $200 a month. That was all.

Yashika: That's good.

Anne: Just $200 a month.

Yashika: Yeah.

Anne: And um, 60% of it is gains.

Yashika: Wow.

Anne: So 60% of the pot is money that is just from growth, so more than half. So it just shows that, you know, I've a nice, really nice pot that ... And most of it is just ... was- is free money, really.

Yashika: That's awesome. And since your son got an awesome scholarship, now that's money that you can allocate for something else, which is really great. I mean, otherwise the money probably would have been spent, I mean, in all honesty.

Anne: Right. Well, there's a little bit of monies here and there, you know, that you can pay for things like a computer and ... Um, he lives off-campus, and the way the team works, it's just easier to set the housing outside of the scholarship, so I pay for his housing, which is really cheap, though, because they have a deal, but either way, it's like, uh, a nice pot of money that sitting there.

And I'm not sure what we'll do with the leftovers. Um, we'll see, but, um, I'm kind of glad I didn't go too crazy. And I think that's what some people just have to remember; it's not an all or none. If you choose to use a tool such as, like, a 529 plan, you don't have to have that be the sole source of the college funds for your children. Um, you can make it some kind of combination, um, but some people choose it. That's their money. That's going to be all the money, and that's fine, too, but, um, it's pretty flexible, that way, how you can use it.

Yashika: That's really helpful. And I guess, you know, I always tell people I live in Texas, so they also have a lot of prepaid plans, especially here in Texas where if you start paying now, you kind of lock in the current rate of school, so that 15, 20 years from now, whatever it is, when your child is actually going to school, you've already prepaid for college. Granted, they're going to be limited to the colleges that they can go for- go to, but they have already had college paid at this lower rate, so that's also a really great deal for those that are considering that option.

Anne: Right. The prepaid plans, they're actually more flexible than people think. The ... You can actually go anywhere. Um, if you leave Texas, they just do a conversion-

Yashika: Oh, that's awesome.

Anne: And generally ... Yeah. And generally the conversion's not as good as if you just had the money, so that's kind of the limiting factor.

Yashika: Mm-hmm (affirmative).

Anne: Another thing you want to check on those plans ... Every state's different but you want to have a guaranteed plan, and what that means is, that you do want to put in the money and lose it. So I used to live in a state of Washington, and actually, at one point, shut the 529 plan down because the state, at one time, mandated that, uh, tuition would get cut, so everybody that had money in the prepaid lost money-

Yashika: Oh, wow.

Anne: ... because they put money in and then the tuition, believe it or not, got cut. Um, I think it's back up and running now, but, uh, just make sure it's guaranteed, so at least you break even, but I think most plans now are guaranteed after the snafu in the state of Washington. But, um, you can leave the state, you just don't get a ... usually a good of conversion rate, because they basically, like, have some kind of formula and they calculate, and then they give you, you know, X amount of dollars to be used elsewhere, so ... But it generally still is money that has grown over time.

Yashika: And, um, I think the other thing about this is, again, you don't need a financial adviser. This is easy to set up. There are lots of calculators and algorithms that, kind of, show you what might be the best, um, plan for you, depending on where you live. Sometimes you might be getting, um, kind of, a, I guess, a tax break.

Anne: Right.

Yashika: Um, but if you choose to go outside of your state, they also kind of tell you what has been the historical gains for that plan, but can easily still be done, I think, you know, within probably 15 minutes; I did for both of my kids. And then it's just kind of on autopilot, so it makes it really easy. I don't have to think about it. And every now and then I'll dump in a little bit of extra money, like, for Christmas and birthdays. That's kind of where I tell people, "Please, no more toys! Can you ... Can you hit this link and add some money? I appreciate it." (laughs)

Anne: No, it's really easy to do, and like you said, you don't need a financial adviser to do. You can go direct to the State's site, sign up for an account. Uh, like you said, many states will offer a state tax break if you contribute to their plan. And, um, if you don't have state taxes, then just pick a plan somewhere else that's fairly cheap and reasonable to begin. Um, there's a great website. It's, um ... You can probably put it in the show notes ... SavingForCollege.com.

Yashika: Yes.

Anne: That has a ton of information on all the different 529 plans, the pros and cons of 529 plans, what 529 plans that are, you know, rated high, rated low, the fees, and whatnot. It's a really, really good resource.

Yashika: Absolutely. And this is one of the areas where I do find if- if you have gone through, um, a financial adviser for this particular portion, a lot of people, when they go back and look at how- how much money has accrued, they've actually lost a significant portion of money because it's so cheap to do it on your own that, a lot of times, the financial adviser's taking a significant portion of the funds out of your 529 if it's been set up that way.

Anne: Correct. Correct. Yes, um, and that's why a little knowledge can go a long way. Um, a really good financial adviser would really tell a client, "Hey, you want to open up a Utah plan? Just go to the State of Utah and open up the plan." Um, because, really, that's in the parents' best interest to have it most economical for them.

Um, most of these 529 plans are not fancy with what you can put in them, by any means. Their allocations are actually fairly simple, so you don't need anybody to be managing what's inside. Um, most of them have really simple choices that you can make.

Yashika: And speaking of, briefly, financial advisers, let's just talk a little bit about if somebody really think they need a financial adviser, this idea of having a fiduciary and having that certified financial planner, as opposed to just picking anybody.

Anne: Right, so, um, you really want to find someone that's a fiduciary, which means is they're basically legally bound to advise you for what's in your best interest, that they should not be ... Obviously, financial advisers aren't working for free; we get that. No one want to work for free, but they shouldn't be making extra income by advising you on certain products. They shouldn't really be selling you anything.

Yashika: Right.

Anne: They should just be giving you advice. So a true fidu-fiduciary just gives advice, um, and they don't have any financial gain. So basically, these types would be flat fee adviser. You just pay them a flat rate, maybe hourly, maybe a quarterly, maybe an annual rate, whatever you negotiate, but that's it. They just give you advice.

You have to be really careful for the advisers that come free that work for institutions, because obviously they're incentivized to sell their own company's products. Um, they can be helpful at times, but you just always had to understand that these financial advisers come in all different flavors.

Yashika: Absolutely. So, I like the next thing in your article here. "Hope for the best, plan for the worst," something that, for some reason, physicians are not very good. (laughs)

Anne: Right. That kind of getting back to that, you know, some of the, you know, have an emergencies fund ... The emergency fund, you know? We all want the best, but things are going to happen, and by making good financial decisions, generally, you'll have money set aside and you'll have the means that, really, no matter what comes up, you'll be able to take care of it. And that is the whole idea, once again, about being financially independent. You're not dependent on your job. If your practice get bought out, or they decide to let all the anesthesiologists go, um, you know, yes, it's going to suck, but at the end of the day it's like, "I'm okay. I could live for, you know, three, four, five months. I can look for a new job," and it's not going to financially impact me.

Yashika: Yeah.

Anne: So, um, it can be really, really reassuring to live that way. Um, like you said, it probably will help with physician burnout because if you're financially secure, and you can go home and rest assured that you can pretty much handle anything that comes your way, um, there shouldn't be a lot of stress over finances. And we know from a lot of different studies that, uh, finances are one of the biggest stressors in anybody's life.

Yashika: Absolutely. I think one of the other things that physicians don't do well planning for is insurance. So, like-

Anne: Right.

Yashika: ... life insurance, disability insurance, and then we- we just get so wrapped up, and all of a sudden there's, you know ... I think we get so confused oftentimes that you do nothing, or you just give all power over to the broker agent, and they just put you on a policy that really is not in your best interest.

Anne: Right. I mean, this is probably a whole another chat (laughs) we could have, but the bottom line is there's, you know, generally two ways you can obtain your insurance benefits. You know, one is through your employer and that's fine. They generally tend to be cost-effective, um, but these are often group benefits, um, so they may not have the best coverage, number one. And number two, once you leave your job, they're gone.

Yashika: Yes.

Anne: So, like, let's say you have life insurance. It is fine, it's cheap through your employer. Maybe even it's free. And you work for them, you know, 20 years. Over that time, you get a few, you know, health issues along the way. You leave that job and now you want to get your own life insurance, and guess what? It can cost you an arm and a leg because you have some health issues along the way now, and you're older, so, you know, it's generally recommended when people start working that they start to collect their own benefits outside of what an employer would offer you. Um, because then either, one, you don't need your employer benefits, um, but if they're free, you can add them on. There's no harm in, you know, taking something free, but-

Yashika: Right.

Anne: ... generally, most people should have their own set of benefits. Probably, the most important for a physician is disability. It's a little pricey, but, you know, that's probably the most likely thing that could happen to you that would really hurt yourself financially, is just your inability to work, but you're still alive. Um, and number two, and no one really likes to talk about this one that can really hurt people financially is divorce. And-

Yashika: Yes.

Anne: ... you know. You know, the classic divorce insurance is, i.e., a prenup, um, and no one ... That's another really taboo, uh, topic that people don't like to talk about but it's really important that people understand that marriage, um, legally, is a financial contract-

Yashika: Yes.

Anne: ... and if people do get divorced it can have huge, huge financial impact. So it's just always worth keeping it in the back of the mind for people who are married or who are about to get married on different ways you can protect your assets, um, should something like that happen. Um, and then life insurance. Generally, the rule of thumb is you only need life insurance is someone is really dependent on your income while you're living. I mean, if you're single person, then you die, you know, no one really needed your income except you, so you probably don't need life insurance, but if you are married, and particularly if you have children-

Yashika: Mm-hmm (affirmative).

Anne: ... you're going to need a life insurance policy. And, you know, then people will say, "Well, term or whole?" It's definitely term insurance.

Yashika: Yes.

Anne: 'Cause once again ... Um, once again, you're only going to need the life insurance, like, while people are depending on that income. Eventually, you stop working, so there's no need for life insurance once you stop working, generally.

Yashika: Yeah, that's- that's a really good point, and I think, you know, again, you can just make it very simple and the idea if you just have some kind of term insurance. I mean, usually they are ... If you are healthy and, especially if you are purchasing it when you are younger-

Anne: Right.

Yashika: ... um, the policies really are not that expensive, um, but you really do need it to be able to cover any future expenses should you not, um ... Should you have an unfortunate passing, um, you know, like in my case, I definitely make the lion's share of the money, and so should I pass, I would want to make sure that, you know, things are paid for; both for my children and for my husband, to continue to live for a lifestyle ... That they don't have a significant change. It's already going to be major with the passing of a person, but to have to completely change that lifestyle because now all of that money is gone, I can't even imagine. That's a huge blow.

Anne: Right. Because, like, you know, yeah, for instance if- if the mortgage payment is 90 or more, is basically coming off all of your income, and if your income is no longer there, who's going to pay for the mortgage payment? And you could argue, well, they could sell the house, but like you said, that's very traumatizing, especially after the death of a family member, so, you know, life insurance policy, a term, is generally fairly cheap, just to be reassured that should anything happen that you're covered. But once you get to the point where you don't need it anymore, that's the beauty of the term insurance. You just say, "I'm done. Cancel."

Yashika: Absolutely. And we'll link some of the, um, additional information as far as life insurance and disability coverage, um, just so that you can see how easy it is, um, to be able to purchase, and it really is one of those things: If you have people depending on your income that you just need to go out and purchase it, especially when you're younger. And I tell all of my residents, my female residents, "Before you get pregnant!" (Laughs).

Anne: Right, yeah. I mean, it is really unfortunate that pregnancy makes rates go up by a ... It's kind of ridiculous, if you ask me, but that's just the way it is. Um, but kind of the rule of thumb: all insurance is cheaper if you get it when you're younger, so the earlier you're thinking about it, just do it. Lock it in, get it cheap, um, and the other thing people will ask, "Well, how much do I need?" You know-

Yashika: Oh, yeah.

Anne: It-it-it's just math. You actually ... This is partly why having the budget helps. You need to sit down and do the math, and then when you sit with a broker, you can go over that math. I mean, generally, they will always oversell you, which is okay. It's probably best to be oversold than to be undersold. Um, but, you know, if you're calculating you need a $2 million policy and they tell you, you need an eight, I mean, something's wrong there. So it's really a good idea to go in at least with some projection of what the math would look like should you pass.

Yashika: That's really good. And, um, let's see. I think one of the other big things that a lot of physicians get caught up in is this, uh, Keeping Up with the Joneses. (laughs)

Anne: Yes. Yes. Yeah, I alluded to that before. I mean, there's a lot of societal pressure with the ... You know, when you're ... Say you're a physician or a doctor, you know, "Ooh, you must have a nice car. Ooh, you must have a nice house." But, you know ... And maybe that's how it was 20, 30 years ago, but the reality is, with the amount of money it takes to get to the point where we start collecting our first pay check, it's not the case anymore.

Yashika: Yeah.

Anne: Stude-student debt is just out of control, medical school debt. Um, people don't realize that when you're a resident you're not paid very well. Um, and so a lot of time goes by without any real earning, uh ... good earning years. And so when you live in a neighborhood and people are driving these nice, fancy cars, and they've been working already for 15, 20 years, you know, it's really hard to compare yourself. Um, and that's where people get caught up. They think, "Well, you know, if my neighbor, Mr. Jones, who's an engineer, can go around and drive a Mercedes, why can't I?" But you know what? Mr. Jones (laughs) has been working for 15 years already.

Yashika: (laughs) Yeah.

Anne: He has no student debt anymore 'cause he only went to school for four years, and he's been saving, and you know, maybe he got to the point where he can- you know, he can afford it now. And that's fine. Chances are, most people can't and they're living, actually, in debt, but we don't know that for sure, but you can probably assume most people are not living, um, fiscally wise, um, lifestyles.

Yashika: Definitely. Um, I think all that's really good information for us to consider. So is there any kind of last little parting words, or if somebody takes nothing else from what we've talked about over the past, you know, 45 minutes, um, what are just a couple of points that you want them to remember?

Anne: Well, I think what we started on, really, is first, you know, understand your budget 'cause I think it's really hard to move forward and make some of these financial decisions if you really don't understand, you know, the lifestyle you're ... the lifestyle that you're living, and what's going in and what's coming out of your pay check.

So budgeting, and then second is, you know, we talked on a lot of topics, trying to cram a lot of information in this time, but the reality's just learn a little bit. If you can just learn a little bit about some of these topics, um ... 'Cause even if you do go and get help, you can make an informed decision together. You know, the tragedy is that a lot of physicians are swindled because we don't know anything about finances. We walk into these financial adviser offices very naïve, with big targets on our backs, that they think we have deep pockets, and we're fairly trustworthy. You know, we have patients trust us, and so we kind of have the same, we're fairly trustworthy, and it's really not the case. You know, they're really trying to make a buck off of us.

So having a little knowledge can go a really long way to help, uh, someone make really sound financial decisions.

Yashika: That's great. Thank you so much for joining us. I really do appreciate you imparting all this knowledge.

Anne: Well, thanks for talking today.

Yashika: Absolutely.

Thanks again for joining us. I know we threw a lot of information out there today, but the bottom line is this: start small. *Do* something. The best time to start is today. This podcast is all about removing thoughts and beliefs that are just not serving you. And if money is an area where you struggle. If money is the place where you have regrets and fears and concerns that you just don't know what you're doing then I invite you to don't think that thought anymore. You too can do this. We've got lots of strong information and links as well as a fantastic article from Dr. Champeaux that will give you some great points to start.

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