Financial Freedom For Today's Physician

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Lecture Outline

- Overview
- Tax Issues Facing the New Physician
- Investments
- Buying A Home
- Debt Reduction
- How to Negotiate Your Compensation

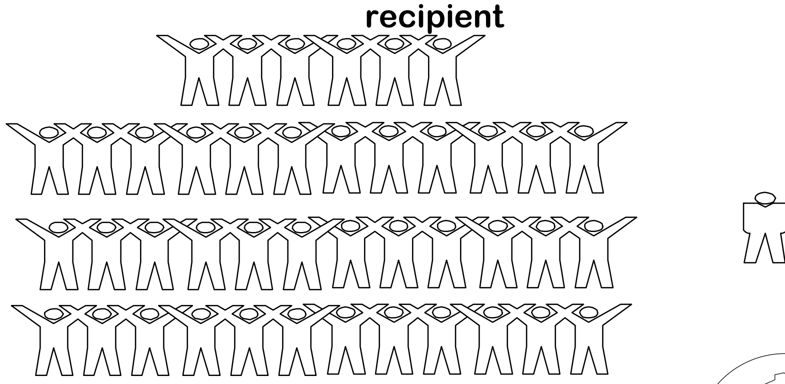
Key Things to Remember!

- Reading books and Internet searches now are not be a waste of your time
- When you graduate you'll enter the world of business be it as a solo practitioner, member of a group practice, employee, etc.
- Think of this preparation as your first step into the business world
- The better you are as a businessperson, the greater your chances are for success

Pat Naylor Lecture on Personal Finance

Workers vs. Retirees

In 1945 there were 42 workers for every Social Security recipient

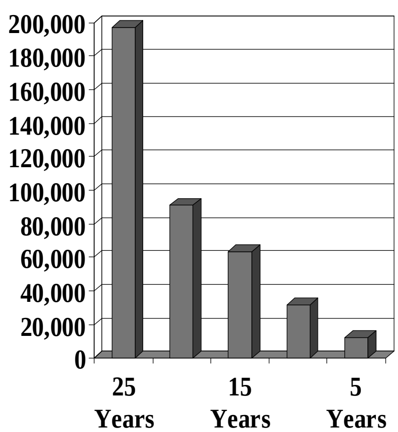


In 1994 there are 3 workers for every Social Security recipient

10 Financial Fundamentals

- Œ Labor develops income but you will spend it
- Only assets develop true wealth
- ž You think it is easier to earn money than to save it
- However, spending less is earning more
- Buy investments first - then toys
- ‘ Taxes aren’t taxes - they are dollars
- ’ Make your money work
- “ Use compounding
- ” Save systematically
- Take action

When Should You Start — Early



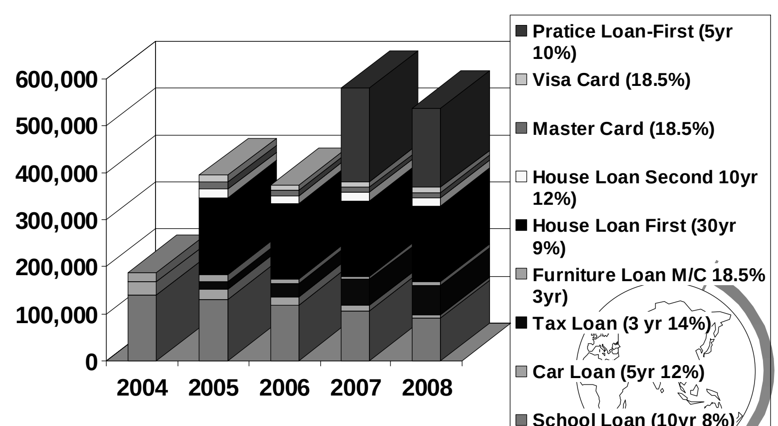
- F 10 % Return
- F Contribute $38.46 per week
- F Grow tax free

Start Investing Early

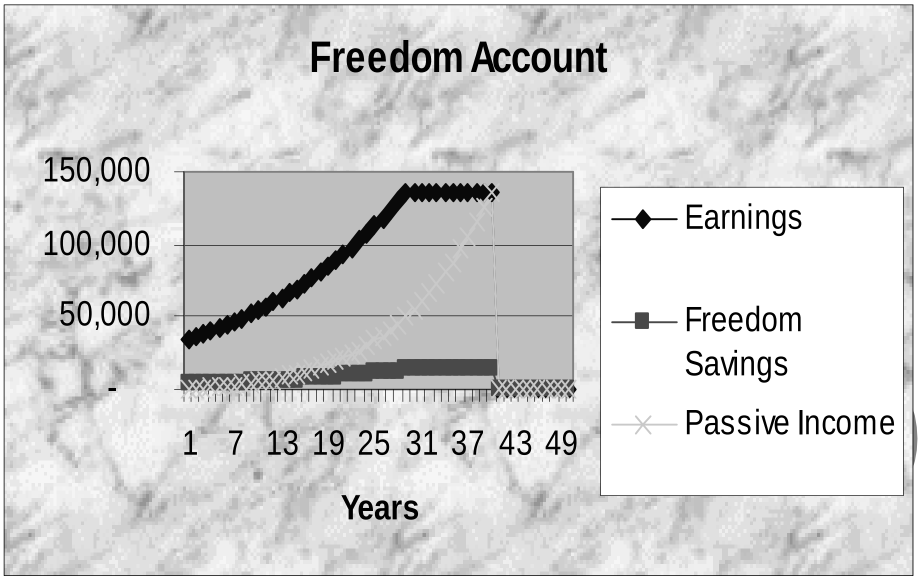
WHEN SHOULD YOU START INVESTING?

	Nurse	Physician
Age When IRA Starts	22	35
Interest Rate	8%	8%
Age AtRetirement	65	65
Years IRA Contribution Made	8	30
IRA Amount Contributed Per Year	$ 2,000	$ 2,000
Total IRA Contributed	$ 16,000	$ 60,000
Balance At End of Contribution	$21,273	$226,566
Balance at Retirement Age	$ 314,532	$ 226,566

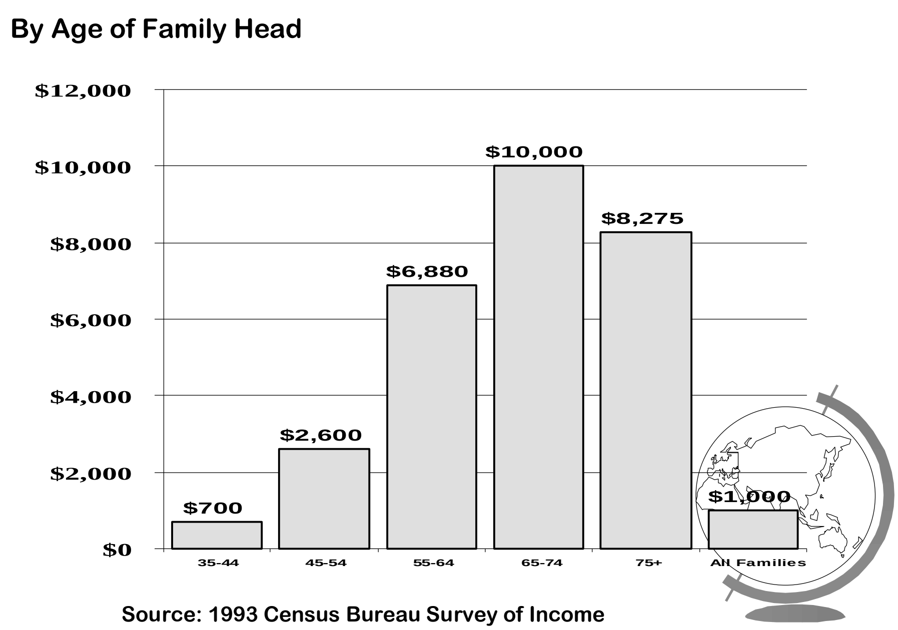
DEBT OUT OF CONTROL FINANCIAL BONDAGE



What If You Earned 10 And Spent 9



Median Net Assets



Source: 1993 Census Bureau Survey of Income

EARN – TAX – SPEND SYNDROME

EARN — COMPANY

TAX — GOVERNMENT

SPEND — YOUR PAYCKECK

OF THE AVERAGE TAXPAYER

2004 Tax Brackets

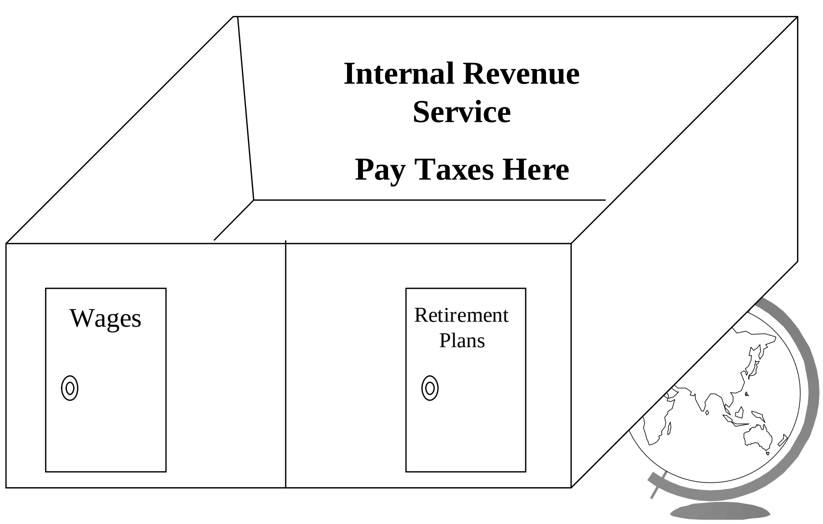
Single	Married Joint	Head of Household	Tax Rate
$0-7,150	$0-14,300	$0-10,200	10%
$7,151-29,050	$14,301-58,100	$10,201-38,900	15%
$29,051-70,350	$58,101-117,250	$38,901-100,500	25%
$70,351-146,750	$117,251-178,650	$100,501-162,700	28%
$146,751-319,100	$178,651-319,100	$162,701-319,100	33%
Over $319,100	Over $319,100	Over $319,100	35%

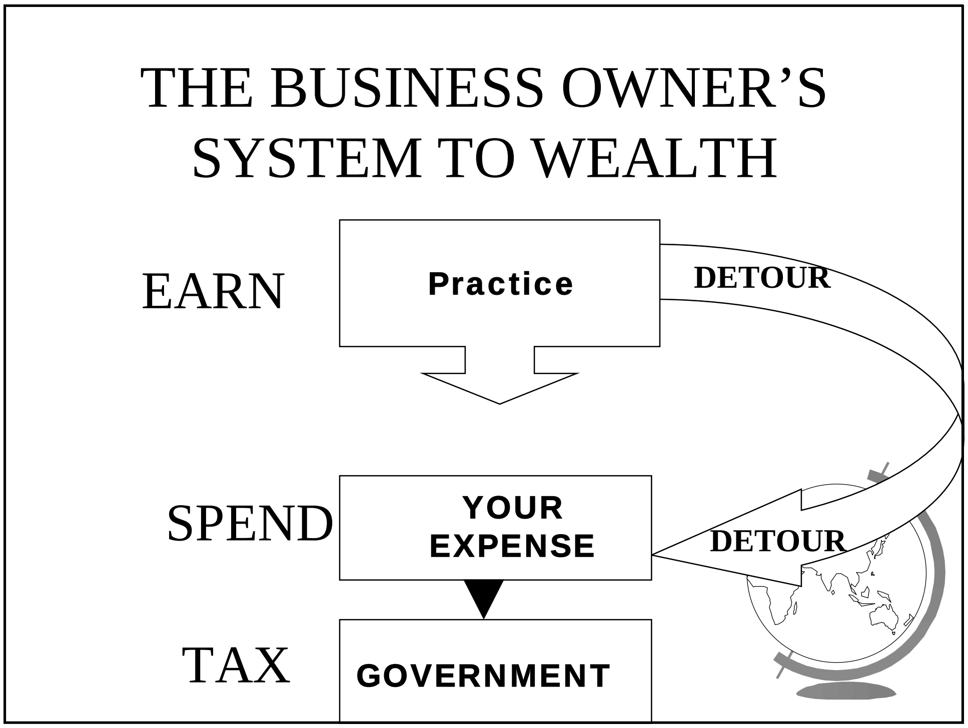
TAX RATES FOR 1967*

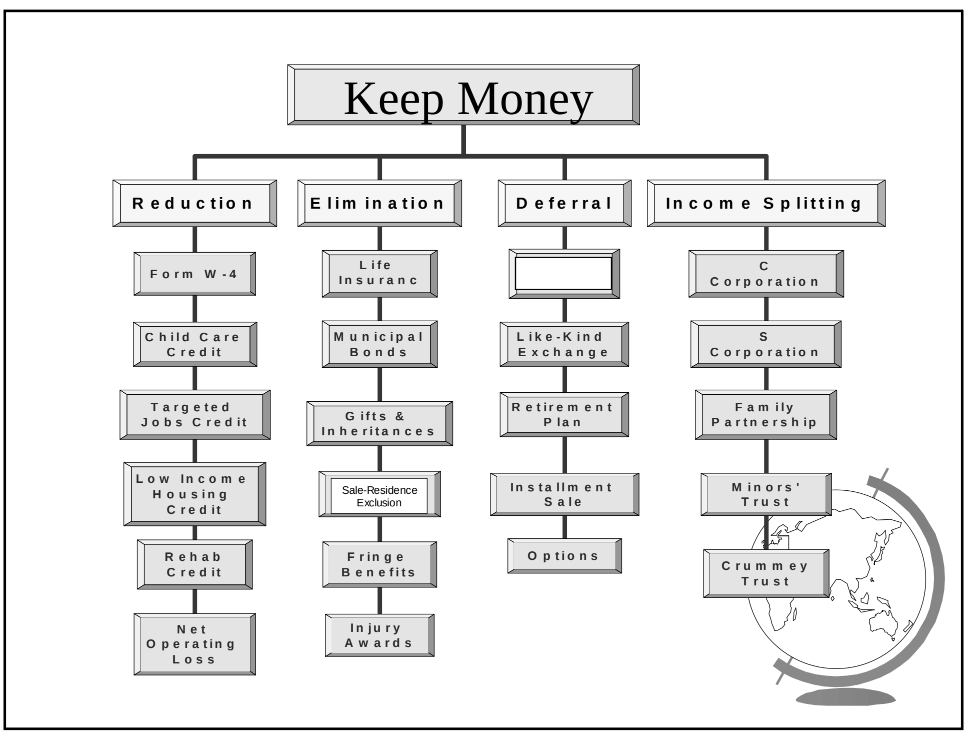
INDIVIDUALS FILING SEPARATE RETURNS **

[¶ 2]

Taxable Income	Tax on Column 1	% on Excess
$	$	14
500	70	15
1,000	145	16
1,500	225	17
2,000	310	19
4,000	690	22
6,000	1,130	25
8,000	1,630	28
10,000	2,190	32
12,000	2,830	36
14,000	3,550	39
16,000	4,330	42
18,000	5,170	45
20,000	6,070	48
22,000	7,030	50
26,000	9,030	53
32,000	12,210	55
38,000	15,510	58
44,000	18,990	60
50,000	22,590	62
60,000	28,790	64
70,000	35,190	66
80,000	41,790	68
90,000	48,590	69
100,000	55,490	70
150,000	90,490	70
200,000	125,490	70




THE BUSINESS OWNER'S SYSTEM TO WEALTH
EARN
Practice
DETOUR
SPEND
YOUR EXPENSE
DETOUR
TAX
GOVERNMENT


Keep Money
Reduction
Elimination
Deferral
Income Splitting
Form W-4
Child Care Credit
Targeted Jobs Credit
Low Income Housing Credit
Rehab Credit
Net Operating Loss
Life Insuranc
Municipal Bonds
Gifts & Inheritances
Sale-Residence Exclusion
Fringe Benefits
Injury Awards
Like-Kind Exchange
Retirement Plan
Installment Sale
Options
C Corporation
S Corporation
Family Partnership
Minors' Trust
Crummey Trust

TO EARN OR TO SAVE

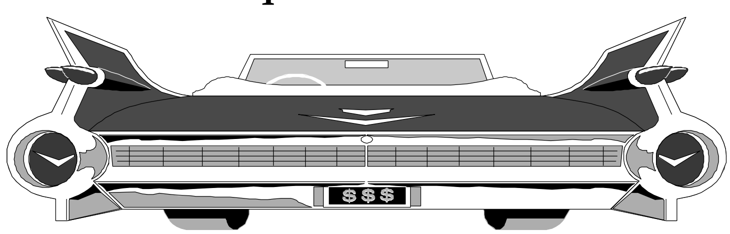
- Federal W/H 35.0%
- Social Security 15.3
- State W/H 9.3

- Total 45.83%

To net ***one after tax dollar*** a physician must produce enough money to pay for office overhead and taxes. Assume 65% overhead it would require collecting $5.27

THINK -- LOW OVERHEAD

Asset Acquisition Rules



- Stay Liquid - Be Able to Get Your Money Back
- Grow - Make Money On Your Money
- Shelter - Get Tax Benefit While They Last
- Build - Don't Spend Your Wealth
- Avoid Linking - Each Investment Stands Alone
- Analyze - Investigate The Investment

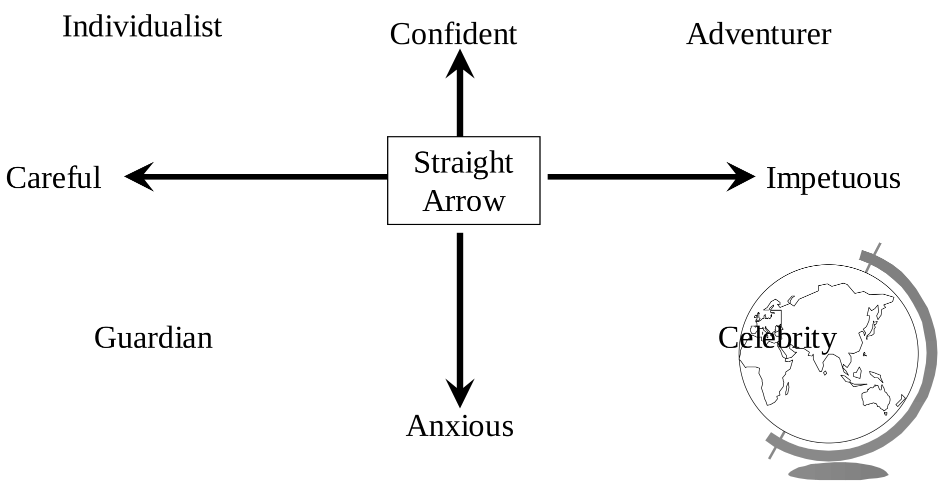
Three Important Principles

- Principle # 1 – Surety – Signing for a debt of another.
- Principle # 2 - Risk
  - Is not necessarily bad
  - Those who take excessive risk do so because the lack the knowledge and ability to evaluate actual risk.
  - "The plans of the diligent lead surely to advantage, but everyone who is hasty comes surely to poverty." Prov 21:5

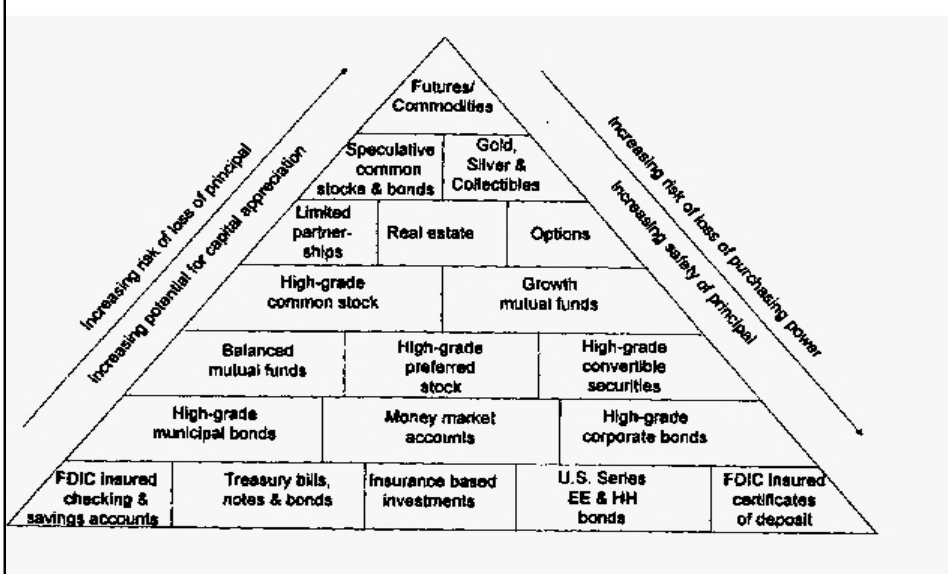
Three Important Principles

- Principle # 3 - Diversification
  - There are no sure things; so diversification is essential to long-term stability.
  - King Solomon once wrote, "Divide your portion to seven, or even to eight, for you do not know what misfortune may occur on the earth" Ecclesiastes 11:2

Psychological Factors in Investing



Investment Risk



Risk and Return

- 1. Get Rich Quick.
  - Amazing how gullible Christians are when it comes to “get rich quick schemes”
  - It might be that we believe in the super natural and invest money in investments that require supernatural intervention.
    - Don’t get involved with things you don’t understand.
    - Don’t risk money you cannot afford to lose

Risk and Return

- Don’t make a quick decision.
  - Vast majority of get rich quick schemes are built on a pyramid base.
- Waiting Too Long
  - People who wait too long before starting to invest, get panicky and then take excessive risk.
  - Seen as a way to make up for a lack of discipline.

Excessive Risk Through Ignorance

- "There is no dishonor in ignorance, provided you don't choose to display it."
- I have limited knowledge of medicine, which is ok as long as I don't start practicing surgery on you.
- Take courses on investing, read, "Play before Paying"

Investment Hall of Horrors "The Worst Investment"

- Commodities Speculation.
- Investment in Partnerships
  - Limited partnerships - limit liability - Recapture.
  - Tax Shelters
  - Precious Metals
    - High mark up, fraud.

Worst Investment #5

- Gemstones.
  - Difficulty for the average investor to tell the quality and value of gems.
- Coins
  - Buy at retail, sell at wholesale.
- Stocks
  - Problem with a single stock.

The Best Investments

- A Home
  - Residential housing has kept track with inflation and appreciated approximately 4% per year. Does not make the best performer for average individual.
- Rental Properties
  - Not for everybody. Attractive because initial investment is not excessively large.

The Best Investments

- Mutual Funds
  - It is designed to attract the average investor.
  - Pooling of a large number of small investors.
  - Buy a broad diversity of stocks.
- Some Insurance Products.
- Company Retirement Plans
- Government-Backed Securities.

Advisors for Entry-Level Investors

- Chose 1: Do your own investing and pay the price of learning as you go.
- Chose 2: Take the advice of the product salesman and hope.
- Chose 3: Seek out inexpensive written materials that you can rely on for guidance.
  - Wall Street Journal, newsletters, Consumer Reports, Money Magazine, Investors Daily.

Dollar-Cost Averaging: How It Works

	Investment ($)	NAV ($)	Shares Purchased
January	100	10	10
February	100	9	11.1
March	100	11	9.1
April	100	8	12.5
May	100	9	11.1
June	100	12	8.3

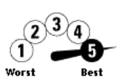
http://news.morningstar.com/news/MS/Investing101/DollarCostAveraging/dollarcostaveraging.html

Potential Benefits of Dollar-Cost Average or Lump-sum Approach

Look at your portfolio as a whole first. If you're making your first investment, dollar-cost average into a steadier fund, such as a blue-chip stock fund or S&P 500 index fund. You can also combine dollar-cost averaging and lump-sum investing. Invest a lump sum up front and arrange for an automatic-investment program to invest a set amount each month. That way, you won't miss out on the potential benefits of either approach.

Five Question To Ask Before You Buy A Fund

- How has the fund performed?
- How risky has the fund been?
- What does the fund own?
- Who runs the fund?
- What does the fund cost?



Return High

Risk Average

Morning Star Rating ★★★★★

Morning Star Reports

How Has This Fund Performed?

Growth of $10,000

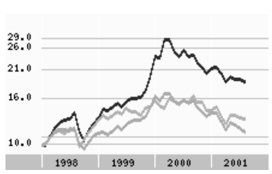
Fund: Artisan International

Category: Foreign Stock

Index: S &P 500

	1998	1999	2000	07-01
Fund	32.2	81.3	-10.6	-12.1
+/- Cat	18.9	36.2	4.8	4.9
+/- Index	3.6	60.3	-1.5	-4.4

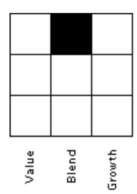
Data through 07-31-01



Size
Median Mkt Cap $Mil 15,382

Market Capitalization	% of Portfolio
Giant	13.80
Large	45.22
Medium	38.70
Small	1.86
Micro	0.42

Style Box Details

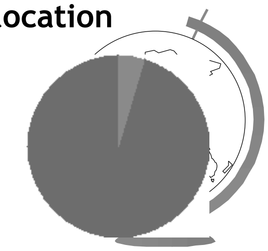


Investment Style History

2000	⊞
1999	⊞
1998	⊞

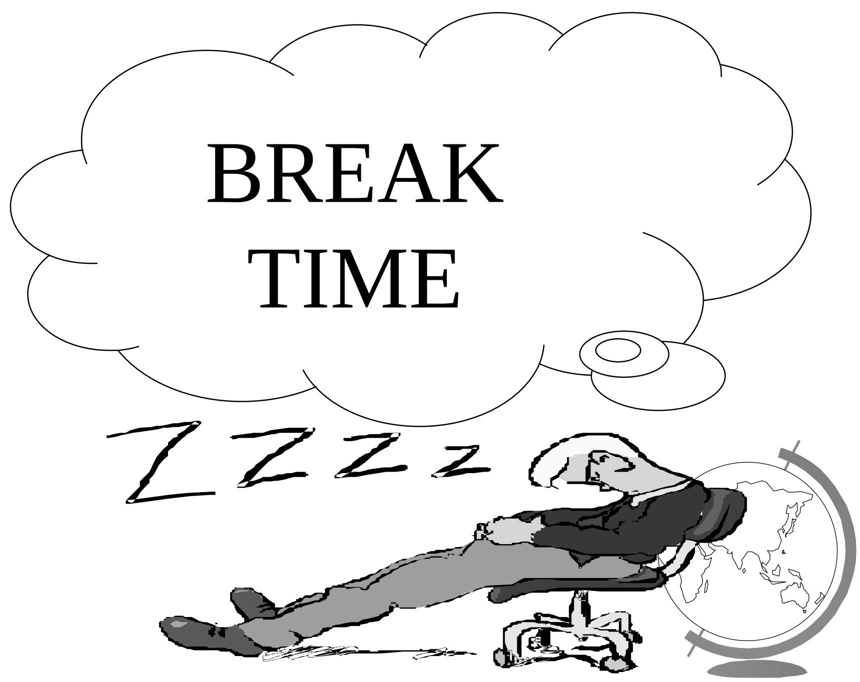
Asset Allocation

Cash	4.6
Stocks	95.4
Bonds	0.0
Other	0.0
Foreign	95.1



Where To Go For Advice

- The Commissioned Salesman
  - Results have been mixed.
  - They have stretched the truth a lot to make a sale.
- **Check a Broker/Dealer Firm or Individual through NASD BrokerCheck** (http://www.nasdr.com/2000.asp)
- Investor Information (http://www.investorguide.com/

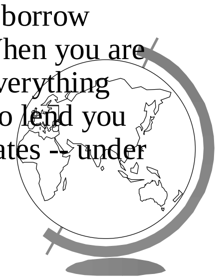


10 Steps to Home Ownership!
Systematic steps to help you buy your home

- Are You Ready?
  - Do you know what you want?
    - Lifestyle change
    - Have you made a list of what is important to you and your spouse?
  - Do you have the money?
    - How much down (20% to 0%)
    - Money to pay closing cost

10 Steps to Home Ownership!

- Are You Ready?
  - Is your financial house in order?
    - **Choose the Wrong Mortgage**
    - **Confuse "Pre-Approved" and "Pre-Qualified" with a Loan Commitment**
      - when you are "pre-qualified," the lender is making an educated guess about how much you can borrow based on information you've provided. When you are "pre-approved," the lender has verified everything you have told him or her and is offering to lend you up to a given amount at current interest rates -- under certain conditions.



10 Steps to Home Ownership!

- Are You Ready?
  - Is your financial house in order?
    - **Have Too Much Credit:** Excessive credit is almost as bad as no credit or even bad credit. Even if you pay your bills on time, lenders tend to focus just as much on how much credit you have available to you as they do on timeliness. So being up to your ears in car loans and credit cards is a sure way to be turned down for a mortgage. Postpone any big ticket purchases until after you buy your house.

Step 1 – Check Your Credit

- Major Credit Reporting Agencies
  - Equifax (800-759-5979)
  - Trans Union (800-888-4213)
  - Experian (888-397-3742).

10 Steps to Home Ownership!

- Are You Ready?
  - Is your financial house in order?
    - **Lie on Your Loan Application:** Exaggerating your income on a mortgage application or putting down other untruths can be a federal offense. Lenders rarely prosecute liars. But if they find out later, they can call your loan due and payable. Don't ever sign your name to a loan application that is not completely filled out, either.

10 Steps to Home Ownership!

- Are You Ready?
  - Is your financial house in order?
    - **Hide If You Can't Make Your Payments:** The worst thing you can do is ignore phone calls and letters from your lender when you are behind on your payments. Lenders have many options at their disposal to help keep borrowers from losing their homes to foreclosure. But they can't do anything for you unless they can talk to you about your difficulties. Lenders are the enemy only if you give them no other choice.

10 Steps to Home Ownership!

- Are You Ready?
  - Is your financial house in order?
    - Burn Your Mortgage: It's a wonderful feeling when you make your last house payment. After all, the place is now yours, all yours. Many people celebrate by holding a mortgage burning party. But they torch the original document. Don't. Make a copy and burn that instead. Keep all your loan docs in a safe place.

10 Steps to Home Ownership!

- Get a Realtor
  - Buying and selling real estate is a complex matter. At first it might seem that by checking local picture books or online sites you could quickly find the right home at the right price.
  - But a basic rule in real estate is that all properties are unique. No two properties -- even two identical models on the same street -- are precisely and exactly alike. Homes differ and so do contract terms, financing options, inspection requirements and closing costs. Also, no two transactions are alike.

10 Steps to Home Ownership!

- How Much Can I Afford
  - Determine your gross monthly income. It must be documented by your tax return plus any unearned sources of income.
  - Calculate your monthly debt load.
    - This includes all monthly debt obligations like credit cards, installment loans, car loans, personal debts or any other ongoing monthly obligation like alimony or child support. If it is revolving debt like a credit card, use the minimum monthly payment for this calculation. If it is installment debt, use the current monthly payment to calculate your debt load. And you don't have to consider a debt at all if it is scheduled to be paid off in less than six months. Add all this up and it is a figure we'll call your monthly debt service.

10 Steps to Home Ownership!

- How Much Can I Afford
  - Your monthly housing expense, including monthly payments for taxes and insurance, should not exceed about 28 percent of your gross monthly income. If you don't know what your tax and insurance expense will be, you can estimate that about 15 percent of your payment will go toward this expense. The remainder can be used for principal and interest repayment.
  - In addition, your proposed monthly housing expense and your total monthly debt service combined cannot exceed about 36 percent of your gross monthly income. If it does, your application may exceed the lender's underwriting guidelines and your loan may not be approved.

10 Steps to Home Ownership!

- Look at Homes
  - Types of homes
    - Single Family
    - Multifamily
      - Some buyers, particularly first-timers, start with multiple family dwellings, so they'll have rental income to help with their costs. Many mortgage plans, including VA and FHA loans, can be used for buildings with up to four units, if the buyer intends to occupy one of them.
    - Condominiums
    - Co-ops

10 Steps to Home Ownership!

- Look at Homes
  - Home purchase considerations
    - Weigh your needs, budget and personal tastes in deciding whether you want a home that’s a newly constructed home, an older home or a home that requires some work -- a "fixer-upper."
    - One-bedroom condos are more difficult to resell than two-bedroom ones.
    - Two-bedroom/one-bath single houses generally have less appeal than houses with three or more bedrooms, and therefore less appreciation potential.

10 Steps to Home Ownership!

- Look at Homes
  - Home purchase considerations
    - Homes with "curb appeal" (a well-maintained, attractive, and charming view-from-the-street appearance) are the easiest to resell.
    - When resale is a possibility, don't buy the most expensive house on the street, or anything that is unusual or unique. The best investment potential is traditionally found in a less expensive, more moderately sized home on the street.

10 Steps to Home Ownership!

- Choose a Home
  - There's no doubt that choosing a home is a big decision and you want to do it right.
  - A home has been placed on the market for which the seller has established an asking price as well as other terms. In effect, this is an offer.
  - You have three choices:
    - accept the seller's offer and create a contract;
    - reject it and not make an offer
    - suggest different terms and make a counter-offer.
    - If you choose this last option, the seller may accept, reject or make a counter-offer.

10 Steps to Home Ownership!

- Choose a Home
  - **When you've found the right home**
    - Resolve at this point that you will act decisively when you find the house that's clearly right for you. This is particularly important after a long search or if the house is newly listed and/or under-priced.
    - **Can you really afford it?**
      Remember Step 2 - the preapproval process? Getting preapproved means you have a very good idea of how much you can borrow, what loan programs will most likely work best in your situation and how much home you can afford

10 Steps to Home Ownership!

- Shopping For a Loan
  - Direct Lenders
    - Direct lenders have money to lend. They make the final decision on your application.
    - Brokers are intermediaries who, like you, have many lenders from which to choose.
    - Lenders have a limited number of in-house loans available.

10 Steps to Home Ownership!

- Shopping For a Loan
  - Direct Lenders
    - Brokers can shop many lenders for each lenders' store of loans. If you have special financing needs and can't find a lender to suit them, an experienced broker may be able to ferret out the loan you need.
    - Mortgage brokers, however, are paid with a slice of the amount you borrow, some more than others some less. Internet brokers today perhaps receive the smallest cut, sometimes none at all, and can prove to be a real bargain

10 Steps to Home Ownership!

- Apply For a Loan
  - The application will ask for information about your job tenure, employment stability, income, your assets (property, cars, bank accounts and investments) and your liabilities (auto loans, installment loans, mortgages, credit-card debt, household expenses and others).

10 Steps to Home Ownership!

- Apply For a Loan
  - The lender will run a credit check on you to take a look at your credit status, but you'll have to supply additional documentation including paycheck stubs, bank account statements, tax returns, investment earnings reports, rental agreements, divorce decrees, proof of insurance, and other documentation. If the lender deems you creditworthy, it will likely hire a professional appraisal to make sure the value of the home you are about to buy is truly worth your loan amount.

Credit Score Can Be Negatively or Positively Influenced By

- Late payments.
- Delinquent accounts placed with a collections agency.
- The number of credit inquiries (i.e., the number of times a credit report on a particular individual has been ordered by prospective credit grantors during a given period of time).
- The total balance of credit card or revolving credit available (it is wise to keep this below $35,000).

Credit Score Can Be Negatively or Positively Influenced By

- The existence of bankruptcy during the last 10 years.
- The dollar amount and number of new debts incurred during the last 18 months.
- Any civil judgments outstanding.
- Disputed city, state and/or federal taxes, etc. that have not been paid.

10 Steps to Home Ownership!

- Make an Offer
  - While much attention is spent on offering prices, a proposal to buy includes both the price and terms. In some cases, terms can represent thousands of dollars in additional value for buyers -- or additional costs. Terms are extremely important and should be carefully reviewed.
  - **How much?**
    The offer depends on the basic laws of supply and demand: If many buyers are competing for homes, then sellers will likely get full-price offers and sometimes even more. If demand is weak, then offers below the asking price may be in order.

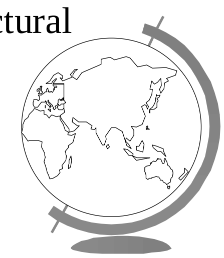
Realtor.com 10 Steps to Home Ownership

10 Steps to Home Ownership!

- Make an Offer
  – Because counter-offers are common (any change in an offer can be considered a "counter-offer"), it's important for buyers to remain in close contact with REALTORS® during the negotiation process so that any proposed changes can be quickly reviewed.

10 Steps to Home Ownership!

- **How Many Inspections**
  – A number of inspections are common in residential realty transactions.
  – They include checks for termites, surveys to determine boundaries, appraisals to determine value for lenders, title reviews and structural inspections.



10 Steps to Home Ownership!

- How Many Inspections
  - Structural inspections are particularly important. During these examinations, an inspector comes to the property to determine if there are material physical defects and whether expensive repairs and replacements are likely to be required in the next few years. Such inspections for a single-family home often require two or three hours, and buyers should attend. This is an opportunity to examine the property's mechanics and structure, ask questions and learn far more about the property than is possible with an informal walk-through.

10 Steps to Home Ownership!

- How Many Inspections
  - They'll be able to tell you whether the roof and/or basement leaks, whether the mechanical systems are in good shape and how long the appliances should last. They can't report on things they can't see, but at least their trained eyes are better than yours. So don't pass just to save $300-$400; that's money well spent.

Realtor.com 10 Steps to Home Ownership

10 Steps to Home Ownership!

- **How Many Inspections**
  - – Is your financial house in order?
    - **Fail to Check Out a Remodeler:** Never, ever hire a contractor who knocks on your door or says his prices are good for only a few days. Reputable remodelers don't solicit door-to-door, and they don't cut prices just because they happen to be in your neighborhood. Check out a potential contractor thoroughly by calling several of his past clients, your local better business bureau, his bankers and suppliers, and your local consumer affairs agency.

10 Steps to Home Ownership!

- **How Many Inspections**
  - – Is your financial house in order?
    - Pay Too Much Upfront: If a contractor asks for more than a third of the contract price as a down payment, chances are something's wrong. At worst, he's a scam artist who has no intention of returning after he cashes your check. At best, he's undercapitalized and can't afford to purchase materials on his own. Or, in between, he could be using your money to pay workers on another job. Never give a contractor cash, either.

10 Steps to Home Ownership!

- Get Insurance
  - **What kind and how much?**
    - There are various forms of insurance associated with home ownership, including these major types:
  - **Title insurance**
  - **Homeowners' insurance**
  - **Flood insurance**

Realtor.com 10 Steps to Home Ownership

10 Steps to Home Ownership!

- **Get Insurance**
  - **Home warranties –** New Homes
    - Workmanship for the first year.
    - Mechanical problems such as plumbing and wiring for the first two years
    - Structural defects for up to 10 years
  - **Home warranties –** Existing Homes
    - One year service agreements purchased by sellers.
    - In the event of a covered defect or breakdown, the warranty firm will step in and make the repair or cover its cost.

Realtor.com 10 Steps to Home Ownership

10 Steps to Home Ownership!

- **Closing**
  - In practice, closings bring together a variety of parties who are part of the "transaction" process. For example, while the history of property ownership has been checked, it's possible that the records contain errors, unrecorded claims or flaws in the review itself, thus title insurance is necessary. At closing, transfer taxes must be paid and other claims must also be settled (including closing costs, legal fees and adjustments). In most transactions, the closing agent also completes the paperwork needed to record the loan

10 Steps to Home Ownership!

- **What You Need to Do.**
  - One of the best parts of settlement is that buyers and sellers need to do very little
  - At closing itself, all papers have been prepared by closing agents, title companies, lenders and lawyers. This paperwork reflects the sale agreement and allows all parties to the transaction to verify their interests. For instance, buyers get the title to the property, lenders have their loans recorded in the public records and state governments collect their transfer taxes.

Are You A Slave?

F The rich rules over the poor, and the borrower becomes the lender’s slave.

- Proverbs 22:7

F Better is a little with the fear of the Lord, than great treasure and turmoil with it.

- Proverbs 15:16

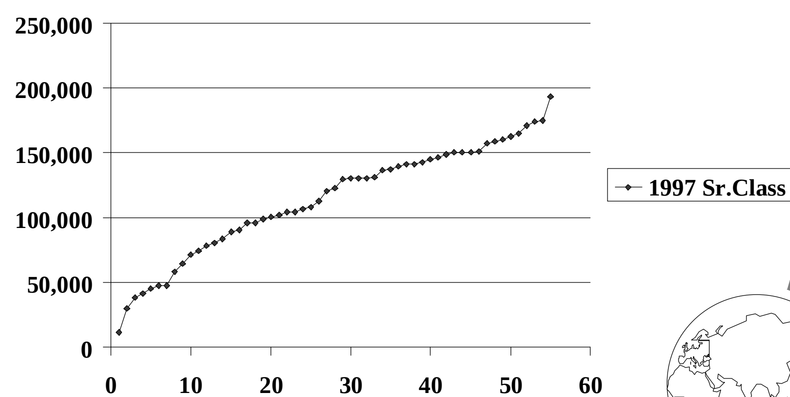
Education is an Example of a Good Debt

F Your return on investment will far exceed anything else you could do.

F Freedom to work when and where you want.

F Last a lifetime

SENIOR CLASS STUDENT LOANS



Bad Debt

- Purchases that over time will lose value. Spur of the moment purchases.

Business and Non-business Bankruptcy Filings

Year	Total	Non-Business	Business
2003	1,650,279	1,613,097	37,182
2002	1,505,306	1,466,105	39,201
2001	1,386,606	1,349,471	37,135
2000	1,276,922	1,240,012	36,910
1999	1,391,964	1,352,030	39,934

http://www.bankruptcyaction.com/USbankstats.htm

What Cost For Contentment

Low Cost

High Cost

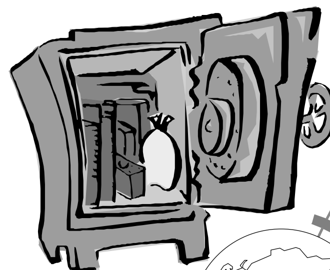
Financial Planning Issues for Health Care Students

- "Don't over borrow. Don't use student loans to purchase homes or cars. Avoid high interest rates, immediate compounding or loans that ask you to repay from graduation without a grace period. Realize you will repay much more than the dollar amount you receive. Living frugally now can make life after graduation much more enjoyable when you get there!"
  - — Steve Robertson, DMD

– ADA Webb Page http://WWW.ada.org/prac/careers/fin-plan.html#debt

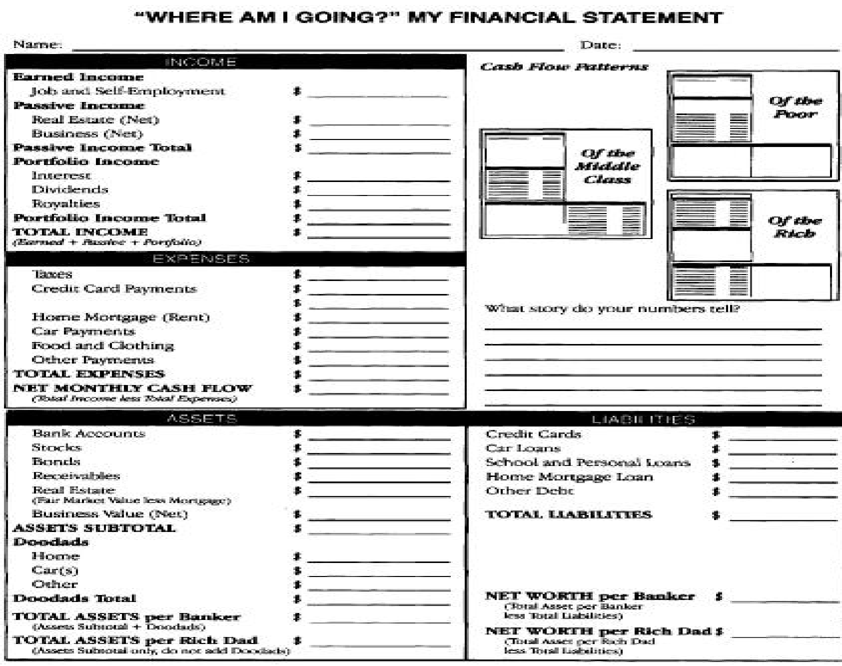
How Can You Best Use Debt?

- How can I pay, with student loan money, a house mortgage to help myself financially?
- What is the best way to manage Medical School Debt? How long should it take to pay it off - ideally?



Budgeting

- 10% For Savings
  - Savings is a Verb
- 20% For Education & Tithe
  - Half on Learning to Take Risk
- 20% For Taxes
- 50% For Lifestyle
  - Food
  - Clothing
  - Shelter
  - Transportation



"WHERE AM I GOING?" MY FINANCIAL STATEMENT

Name: ________________ Date: ________________

INCOME	
Earned Income	
Job and Self-Employment	$
Passive Income	
Real Estate (Net)	$
Business (Net)	$
Passive Income Total	$
Portfolio Income	
Interest	$
Dividends	$
Royalties	$
Portfolio Income Total	$
TOTAL INCOME (Earned + Passive + Portfolio)	$

EXPENSES	
Taxes	$
Credit Card Payments	$
	$
Home Mortgage (Rent)	$
Car Payments	$
Food and Clothing	$
Other Payments	$
TOTAL EXPENSES	$
NET MONTHLY CASH FLOW (Total Income less Total Expenses)	$

Cash Flow Patterns

Of the Poor

Of the Middle Class

Of the Rich

What story do your numbers tell?

ASSETS	
Bank Accounts	$
Stocks	$
Bonds	$
Receivables	$
Real Estate (Fair Market Value less Mortgage)	$
Business Value (Net)	$
ASSETS SUBTOTAL	$
Doodads	
Home	$
Car(s)	$
Other	$
Doodads Total	$
TOTAL ASSETS per Banker (Assets Subtotal + Doodads)	$
TOTAL ASSETS per Rich Dad (Assets Subtotal only, do not add Doodads)	$

LIABILITIES	
Credit Cards	$
Car Loans	$
School and Personal Loans	$
Home Mortgage Loan	$
Other Debt	$
TOTAL LIABILITIES	$
NET WORTH per Banker (Total Asset per Banker less Total Liabilities)	$
NET WORTH per Rich Dad (Total Asset per Rich Dad less Total Liabilities)	$

RECOMMENDATIONS

- **Becoming debt free**
  - With the desire, discipline, and time anyone can become debt free and stay that way.
  - Five basic steps to debt elimination:
    - Transfer ownership of every possession to God
    - Give the Lord His part first—the tithe on gross income
    - Allow no more debt (no bank or family loans and cut up the credit cards)
    - Develop a realistic balanced budget that will allow every creditor to receive as much as possible
    - Start retiring the debt. Generally speaking, if these steps are faithfully followed, the average family can usually be debt free in about five years.

RECOMMENDATIONS

- **Retire the Debt**
  - Begin by first paying extra on the debts with the highest interest rates. If interest rates are compatible on all of the debts, first pay extra on the one with the smallest balance.
  - After this first one has been paid, apply the regular payment as well as the extra money that was going to it toward the next highest balance. After the second is paid off apply what was being paid on the first and second to the third highest and so forth.
  - Once debt freedom has been realized by families, a radical change in lifestyle and a reevaluation of family values should be considered to help prevent similar debt situations from recurring.

RECOMMENDATIONS

- Have payroll taxes taken out of your pay or set aside 30% of everything you take in for taxes. Do this on your first day of work.
- Pay off student loans ASAP
- No new consumer debt for the first five years.
- If you can not pay cash, do not buy.
- Only use credit cards if you pay off balance monthly.

The most <u>Powerful</u> Tool in Physician Organizations Today is their Compensation Model. It is also the most <u>Underused</u> and <u>Misused</u>.

From Lecture by Joe D. Havens, CPA Horne CPE Group

What is an Effective Physician Compensation Model?

- Basically Fair
- Promotes Group Objectives
- Rewards Hard Work
- Simple
- Recognizes Valuable Non-Patient Activity
- Empowers Physician Leadership

From Lecture by Joe D. Havens, CPA Horne CPE Group

New Pressures Changing Compensation Models

- Reduced Reimbursement
- Changing Reimbursement
- New Ancillary Revenues
- Consolidation
- New Performance Criteria
- Stark Regulations

From Lecture by Joe D. Havens, CPA Horne CPE Group

Current Trends

1. **Individual Revenue/Cost Centers**
2. **Productivity Flexing its Muscle**
3. **Patient Satisfaction/Quality Measures**
4. **Discretionary Bonuses**

From Lecture by Joe D. Havens, CPA Horne CPE Group

Trend #1
Individual Revenue/Cost Centers

- Allocation of Individual Collections
- Allocation of Direct Costs
- Detailed Allocation of Indirect Costs
- Primarily Individual Spending Decisions

à Solo Practitioner Within a Group Structure

From Lecture by Joe D. Havens, CPA Horne CPE Group

Trend #2
Productivity Flexing Its Muscle

- Single Specialty Groups Moving from Equal Share to some Measure of Productivity
- Many Groups Increasing Productivity Allocations
- Minimum Production Thresholds Implemented
- Redefining Productivity

From Lecture by Joe D. Havens, CPA Horne CPE Group

Productivity Redefined

- Productivity Measured:
  - Gross Professional Charges
  - Net Professional Charges
  - Collections
  - RVU's
  - Time/Schedule
  - Patient Visits
  - Contacts/Referrals
  - Panel Size

From Lecture by Joe D. Havens, CPA Horne CPE Group

New Wrinkles for Productivity Plans

Develop New Incentive Pools to Pay on Criteria Which Promote Group Success.

Sample Plan

Distributable Income from ProductivityPlan	$1,000,000
Less: 20% for Incentive Pools	(200,000)
Distributable Income Per Production Basis	$ 800,000

Incentive Pools (20% of Available Income)	
1. Cost Effectiveness	$ 80,000
2. Patient Satisfaction	$ 50,000
3. Seniority	$ 20,000
4. Group Meetings and Administration	$ 50,000

From Lecture by Joe D. Havens, CPA Horne CPE Group

Trend #3
Patient Satisfaction/Quality Measures

- 10-25% Compensation
- Patient Satisfaction Scores
- Access
- Pharmacy Utilization and Formulary Compliance
- Hedis (***The Health Plan Employer Data and Information Set***) Measures
- Referral Rates
- Improved Protocols
- Preventive Medicine

From Lecture by Joe D. Havens, CPA Horne CPE Group

Trend #3
Patient Satisfaction/Quality Measures

- Administrative Hassle
- Standardization
- Physician Buy-In
- Developing Measurements
- Low Productivity
- Limited Factor in Payor Reimbursement

From Lecture by Joe D. Havens, CPA Horne CPE Group

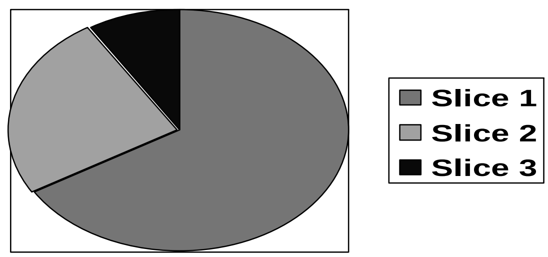
Trend #4
Discretionary Bonuses

- More of a Trickle?
- Empowerment of Leadership
- Limits Gaming
- Incentives for new Behaviors
- Where We Need to Go

A Perfect Compensation Model Does Not Exist!

From Lecture by Joe D. Havens, CPA Horne CPE Group

Common Methods of Income Distribution



From Lecture by Joe D. Havens, CPA Horne CPE Group

Individual vs. Group Theme

- Individual:

  Physician revenues – Physician Overhead = Physician Compensation

- Group:

  Practice Revenue – Practice Overhead = Pool For Physician Compensation

From Lecture by Joe D. Havens, CPA Horne CPE Group

Individual Models
Expense Allocation

- Strict Cost Accounting
- Modified Cost Accounting (Fixed, Variable, Direct)
- Negotiated Overhead Allocations (50% Equal; 50% Production)
- Market Overhead Rates Based on Production

From Lecture by Joe D. Havens, CPA Horne CPE Group

Somewhere Clinic

Gross Charges	$3,000,000
Gross Collections	2,300,000
Overhead (42%)	966,000
Net Income	1,334,000

	Production %
Dr. New	22%
Dr. Slowdown	17%
Dr. Steady	25%
Dr. NeedsCash	36%

From Lecture by Joe D. Havens, CPA Horne CPE Group

Equal Compensation

Net Income is Simply Divided by the
Physicians Equally.
$1,334,000 Divided by 4 Equal $333,500 Each

Dr. New	$333,500
Dr. Slowdown	$333,500
Dr. Steady	$333,500
Dr. NeedsCash	$333,500

Equal Compensation

- Single Specialty
- Simple, Team Focused
- Lacks Productivity Incentive
- No Incentive for Behavior Changes

From Lecture by Joe D. Havens, CPA Horne CPE Group

Productivity Based

Production with Proportional Overhead

	Dr. New	Dr. Slowdown	Dr. Steady	Dr. NeedsCash	Practice Totals
Production %	22%	17%	25%	36%	100%
Income	$506,000	$391,000	$575,000	$828,000	$2,300,000
Overhead	212,520	164,220	241,500	347,760	966,000
Net Income	$293,480	$226,780	$333,500	$480,240	$1,334,000

From Lecture by Joe D. Havens, CPA Horne CPE Group

Productivity Based
(Cont'd)

Production with Equal Overhead

	Dr. New	Dr. Slowdown	Dr. Steady	Dr. NeedsCash	Practice Totals
Production %	22%	17%	25%	36%	100%
Income	$506,000	$391,000	$575,000	$828,000	$2,300,000
Overhead	241,500	241,500	241,500	241,500	966,000
Net Income	$264,500	$149,500	$333,500	$586,500	$1,334,000

From Lecture by Joe D. Havens, CPA Horne CPE Group

Production with Variable and Fixed Overhead

	Dr. New	Dr. Slowdown	Dr. Steady	Dr. NeedsCash	Practice Totals
Production %	22%	17%	25%	36%	100%
Income	$506,000	$391,000	$575,000	$828,000	$2,300,000
Overhead					
Fixed 15%	86,250	86,250	86,250	86,250	86,250
Variable 27%	136,620	105,570	155,250	223,560	621,000
Net Income	$283,130	$199,180	$333,500	$518,190	$1,334,000

From Lecture by Joe D. Havens, CPA Horne CPE Group

Production with Fixed, Variable and Direct Costing

	Dr. New	Dr. Slowdown	Dr. Steady	Dr. NeedsCash	Practice Totals
Production %	22%	17%	25%	36%	100%
Income	$506,000	$391,000	$575,000	$828,000	$2,300,000
Overhead					
Fixed	86,250	86,250	86,250	86,250	345,000
Variable	90,860	70,210	103,250	148,680	413,000
Direct	48,000	49,000	50,000	61,000	208,000
Net Income	$280,000	$185,540	$333,500	$532,070	$1,334,000

From Lecture by Joe D. Havens, CPA Horne CPE Group

Production Models

- All Groups
- Encourages High Production
- Simple, Objective
- Promotes Over-Utilization
- Patient Competition
- Collections vs. Production
- No Incentive for Behavior Changes

From Lecture by Joe D. Havens, CPA Horne CPE Group

Production with Equal Share

	Dr. New	Dr. Slowdown	Dr. Steady	Dr. NeedsCash	Practice Totals
Production %	22%	17%	25%	36%	100%
Equal Compensation (40%) (533,600 divided by 4)	$133,400	$133,400	$133,400	$133,400	$533,600
Production (60%)	176,088	136,068	200,100	288,144	800,400
Net Income	$309,488	$269,468	$333,500	$421,544	$1,334,000

From Lecture by Joe D. Havens, CPA Horne CPE Group

Salary Model

- Acquired Practices
- Staff Model HMO's
- Management Control
- Simple, Easy
- Low Work Ethic
- No Teamwork
- New Behavior Incentives?

From Lecture by Joe D. Havens, CPA Horne CPE Group

Salary And Bonus Plan

Implement Base Salary Structure

- Last Year's Performance
- National Surveys (MGMA, SMD, AGPA)
- Local Compensation Surveys
- 50% to 75% of Total Compensation

From Lecture by Joe D. Havens, CPA Horne CPE Group

Performance Standards

- FFS Productivity or RVU's
- Standard Work Hours
- On Call Rotation
- Open Panel
- Encounters
- Administrative

From Lecture by Joe D. Havens, CPA Horne CPE Group

Salary and Bonus Plan *(Cont'd)*

- Production
- Risk Sharing
- Contribution to Group
- Patient Satisfaction
- Seniority
- Quality/Outcomes

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Success Factors for Salary and Bonus Plans

- Explicit Work Standards
- Implementation of Performance Reviews/Evaluations
- Strong Physician Leadership
- Timely Feedback
- Incentives Should Be At Least 25% of Total Compensation

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Salary/Bonus Model

- All Groups/Organizations
- Incentive for New Behavior
- Can Help Meet Comprehensive Needs
- Complex
- Subjective
- Data for Benchmarking
- Physician Gaming

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Other Notable Trends

- More Awareness of Regulatory Issues
- Less Emphasis on Seniority
- Compensation for Leadership
- Compensation for Attendance at Meetings
- Establishing Value for Call

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Logic for Call Value

Weekday:

96 Hours

Weekend:

72 Hours x 1.5 Factor = 108 Units

Annual Units: 204 x 52 = 10,608

10,608 / 7 = 1,515 Unit Per Doctor

% Comp / 1,515 = Value Per Unit

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Value Assigned to Call

Low		Medium		High	
10% of compensation		15% of Compensation		30% of compensation	
$43,500		$65,000		$130,000	
Earnings for Weekday Call	Earnings Per Day	Earnings for Weekday Call	Earnings Per Day	Earnings for Weekday Call	Earnings Per Day
2,756	689	4,118	1,030	8,238	2,060
Earnings for Weekend Call	Earnings Per Day	Earnings for Weekend Call	Earnings Per Day	Earnings for Weekend Call	Earnings Per Day
3,101	1,034	4,633	1,544	9,267	3,089

Looking Ahead

- Medical Groups Need to:
  - Empower Physician Leadership
  - Align with Proactive Physicians
  - Invest in MIS
  - Start Outcomes Data Management
  - Redesign Physician Compensation
  - Access Capital/Expertise
  - Prioritize Management Time

The Ability to Demonstrate Quality Shall Ultimately Differentiate Providers, Presenting Some with Opportunity and the Others with Fallout.

Value Is Provided in Two Areas:

- **Positive Clinical Outcomes**
- **Cost of Care**

A New Direction

- Base Compensation Utilizing Multiple Production Criteria
- Discretionary Bonus Pool

Productivity Base Compensation

- Utilizing at least "3" Productivity Components
- 60% - 80% of Compensation
- Benchmark with External Data (Market)

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Internal Medicine Associates *Example*

Annual Units		Rates	Weight	Base Compensation
Clinical Hours 1,300	x	$75	20%	$19,500
Relative Work Units 3,200	x	$17: < 800 $25: 800 – 3,000 $10: > 3,000	30%	$21,180
Cash Received $280,000	x	34%: < $85,000 50%: $85,000	50%	$63,200
				$103,880

Developed by Hyatt, Imler, Ott & Blunt, Atlanta, GA

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A PERSPECTIVE FOR SETTING LIFESTYLE GOALS

- "The big cars, lavish homes, expensive vacations, and overstuffed bank accounts will not matter a whit one second after you heart stops beating. The only thing that will be of any importance for all eternity is that which was done in the Lord's name-in the Lord's way." Business By The Book Pg.. 47

Never hang back. Get out there and go for it.

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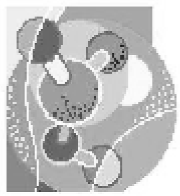
Helping Professionals Reach Their Financial Goals



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