
5. Commonsense Personal Finances

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Sample

Commonsense Personal Finances

Managing personal finances is a major source of stress, if not *the* major source of stress, in many people's lives. This chapter begins with fundamental strategies for setting and reaching your financial goals and achieving financial security: Resources for learning about personal finances, setting financial goals, annual financial checkup, getting into and out of debt, and developing your financial plan.

A conservative approach to investing helps physicians "get rich slowly" while minimizing risks. Learn about different types of securities so you can build an investment portfolio that balances your tolerance for risk with the returns you need to reach your financial goals. Contributions and earnings in tax deferred retirement plans are exempt from taxation until distributed. Different types of retirement plans are described.

The various components of estate plans are outlined. Various types of life and disability are described, and worksheets are presented for determining life and disability insurance needs. Other types of insurance are described, as well.

The final section addresses working with professional advisors: financial planners, accountants, attorneys, and management consultants.

Residents' interest in personal and professional finances grows as they approach the completion of their training. Their familiarity with the issues will likely vary, with some quite knowledgeable and others relatively unsophisticated.

Since most people are reluctant to share their personal financial information, many of the lesson plans in this chapter are "projects" where the participants work individually, rather than "workshops" where they learn together.

Individuals associated with financial firms sometimes approach residency program faculty with offers of free seminars for their residents. While they may be knowledgeable, they frequently use such seminars to pitch their products and services to the residents either during or after the seminar. If you invite people with ties to financial firms to speak, ask them to give balanced presentations and warn them against soliciting the participants.

Taking Control of Your Finances

The first step toward financial security is increasing your knowledge of personal finances, and there is a multitude of resources: books, web sites, magazines, and software. The second and third steps are setting your financial goals and checking your financial vital signs. Since many young physicians have a significant debt burden, approaches for getting into and out of debt are useful. Finally, the young physician is ready to develop his or her financial plan.

The general educational goal of taking control of your finances is to become familiar with the personal financial planning resources and techniques.

Lesson Plan: Taking Control of Your Finances Overview

Educational goal

Participants will become familiar with resources and approaches to personal financial planning and debt management.

Activities

Participants read Chapter 5: Taking Control of Your Finances and participate in a lecture-discussion.

The instructor conducts a lecture-discussion on:

- ▶ Resources for learning about personal finances
- ▶ Setting financial goals
- ▶ Getting into and out of debt
- ▶ Developing a financial plan

Participants complete Test: Taking Control of Your Finances.

Hours of instruction

2:00, including reading

Scheduling guidelines

Fall of GY-2 or later

Notes

Test: Taking Control of Your Finances

1. As you travel the road to financial security
 - a. Take a cautious, conservative approach
 - b. Get a good personal finances desk references
 - c. Learn from other resources
 - d. Become familiar with key issues
 - e. All of the above

2. List three personal finances vital signs.

3. What is the best reason to consolidate student loans?
 - a. To get lower monthly payments
 - b. To get a lower interest rate
 - c. To simplify record keeping
 - d. To combine spouses' individual student loans
 - e. To improve your credit score
4. Which is NOT a conservative debt management strategy?
 - a. Obtain the lowest interest rate (APR) after taxes
 - b. Avoid carrying an outstanding credit card balance from month to month
 - c. Consider a home equity loan
 - d. Extend the repayment term of loans
 - e. Document the terms of personal loans with family or friends.
5. What is a credit score?
6. Build wealth by
 - a. Focusing on net worth, not income
 - b. Living below your means
 - c. Investing time managing your finances
 - d. Seeking professional advice, as necessary
 - e. All of the above

Answers to Test: Taking Control of Your Finances

1. As you travel the road to financial security
 - a. Take a cautious, conservative approach
 - b. Get a good personal finances desk references
 - c. Learn from other resources
 - d. Become familiar with key issues

Answer e. All of the above

2. List three personal finances vital signs.
 - ▶ Net worth
 - ▶ Money for emergencies
 - ▶ Whether debts are increasing relative to savings
 - ▶ Whether you have the right amount of life and disability insurance
 - ▶ How well you investments are performing
 - ▶ Progress toward your financial goals
3. What is the best reason to consolidate student loans?
 - b. To get a lower interest rate
4. Which is NOT a conservative debt management strategy?
 - d. Extend the repayment term of loans
5. What is a credit score?

Credit reporting companies analyze information in your credit report using mathematical models to calculate your numerical credit score, which lenders use to determine whether you qualify for a particular credit card, loan terms, interest rate, or other financial service.

6. Build wealth by
 - a. Focusing no net worth, not income
 - b. Living below your means
 - c. Investing time managing your finances
 - d. Seeking professional advice, as necessary

Answer: e. All of the above.