

DOCTOR'S DIGEST

MONEY MATTERS

Spring 2010

Financial tips from leading experts

Why You Should Consider Switching to Roth IRAs Now



Physicians may want to consider converting their traditional IRAs to Roth IRAs this year to avoid a 3.8% surtax on investment income that takes effect in 2013. That hike is part of the new health insurance legislation, which contains higher taxes for upper-income taxpayers—those with income over \$200,000, or over \$250,000 for couples filing joint tax returns.

Converting your IRA now offers these advantages:

- With a 2010 Roth IRA conversion,

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Take a Longer Look at Short Sales

Whether you're in the market for a larger residence, a vacation home, or investment property, this is a great time to be a buyer. Prices are down sharply from the peak of a few years ago.

Often you can get a great deal with a "short sale." A short sale takes place when the purchase price deal won't cover the existing mortgage debt. For

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Better Deals on PLUS Loans

Medical school students—and their parents—may be able to have easier access to lower federal student loan interest rates because of a change passed as part of the new health insurance legislation.

Previously, most colleges and universities participated in the Federal Family Education Loan (FFEL) program, in which federally guaranteed loans came from private lenders. Fewer schools participated in the Direct Loan program, in which the money came straight from Uncle Sam.

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How to Pay an Advisor

In these tumultuous economic times, you may want a professional's advice on how to manage your money. You'll pay for that advice, but different advisors have different compensation arrangements.

Commissions. Perhaps the most familiar way to pay for investment advice is to buy a stock or fund that a broker recommends and pay a sales commission. This arrangement may work well if you invest infrequently and hold onto the securities you buy for years, thus minimizing the commissions you pay.

Assets under management. Increasingly, investment advisors are calling

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Greater Tax Deductions for Medical Equipment



You can deduct up to \$250,000 spent on equipment for your practice this year, thanks to the Hiring Incentives to Restore Employment Act of 2010. The new law raised this year's cap from \$134,000 for first-year deductions.

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Be Flexible With Portfolio Withdrawals



If you have a flexible retirement fund withdrawal strategy, you may be able to withdraw more than the 4% that is typically recommended.

For example, under a traditional scenario you would withdraw \$20,000 from a \$500,000 portfolio in the first year. In subsequent years, you'd increase your withdrawal amount by

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Why You Should Consider Switching to Roth IRAs Now *(Continued)*

you can pay tax at 2010 tax rates, which are lower than expected future income tax rates. After five years and after age 59½, all Roth IRA distributions will be tax-free.

- A 2010 Roth IRA conversion lets you avoid taking taxable distributions from a traditional IRA in the future.
- You can pay the tax on your 2010 Roth IRA conversion from non-IRA funds. This may reduce your taxable portfolio and thus reduce the taxable investment income that will be subject to the 3.8% tax.

“By using non-IRA assets to pay the tax on a Roth IRA conversion, you essentially are moving taxable dollars into a tax-free account with many investment options,” says Marty James, who heads Martin James Investment & Tax Management, LLC, an accounting and investment advisory firm in Mooresville, Indiana. **\$**

Following through: Find out more about the 3.8% surtax at <http://tax.cchgroup.com/Legislation/Final-Healthcare-Reform-03-10.pdf?pacp-attached=1&pacp-SITESERVER=ID=70e413ad5980c54f9283357f3dd6c50c>, p. 4.

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Better Deals on PLUS Loans *(Continued)*

But as of July 1, 2010, all federal education loans will come through the Direct Loan program. That may be good news for parents and graduate students who use federal Parent Loans for Undergraduate Students (PLUS) loans for higher education, now called Parent PLUS Loans and Graduate PLUS Loans.

“Parents and graduate students who were formerly borrowing through the FFEL program will now have access to a lower interest rate.”

“Parents and graduate students who were formerly borrowing through the FFEL program will now have access to a lower interest rate,” says Deborah Fox, who heads Fox College Funding in San Diego. “Due to a glitch in prior law, FFEL originated PLUS loans had an 8.5% maximum interest rate while the Direct Loan version charged 7.9%.” Starting in July, all new PLUS loans will have the lower 7.9% fixed interest rate.

She notes that because the lending standards of FFEL lenders are tighter than those of the government, PLUS loans may be easier to get than they were in the past once all-government lending begins in July. **\$**

Following through: Go to www.fastweb.com/financial-aid/articles/2177-how-will-the-student-loan-bill-affect-students to read how the new legislation will affect student loans.

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Greater Tax Deductions for Medical Equipment *(Continued)*

“A company—including a medical practice—can take a first-year write-off for up to \$250,000 of business equipment, with a phase-out for capital expenditures exceeding \$800,000,” says Ed Mendlowitz, partner in the CPA firm WithumSmith+Brown, New Brunswick, New Jersey.

That means that if you buy \$900,000 of equipment in 2010, you will be over the \$800,000 threshold by \$100,000. Thus, your first-year write-off will be cut by \$100,000 from the maximum \$250,000 down to \$150,000. If you buy \$900,000 worth of equipment and you take a first-year deduction of \$150,000 under section 179 of the tax law, the other \$750,000 worth of equipment will be deducted under multi-year depreciation tables. **\$**

Following through: See www.section179.org/section_179_faqs.html, for frequently asked questions and answers on section 179.

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Take a Longer Look at Short Sales *(Continued)*

example, if you bought a house for \$400,000 in 2006, with a \$380,000 mortgage, and you can sell the house now for only \$300,000, this transaction would result in a loss of some \$80,000 for the lender.

“Short sales need the lender’s approval,” says Bob Fornatto, a senior mortgage consultant at Wintrust Mortgage, Downers Grove, Illinois. “If there’s a second mortgage, the holder of that loan also must agree. So short sales don’t always go through.”

Short sales may be easier to close now because of federal government initiatives such as the Home Affordable Foreclosure Alternatives (HAFA) program, introduced in

This program provides cash incentives to gain approvals [of short sales] from lenders.

April 2010, which encourages short sales. This program provides cash incentives to gain approvals from lenders. Under HAFA, mortgage holders must inform homeowners of the lowest price they will accept, then respond to a homeowner’s offer within 10 days. **\$**

Following through: HAFA’s main provisions are spelled out at www.realtor.org/government_affairs/short_sales_hafa.

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Investing: How to Pay an Advisor *(Continued)*



themselves “fee-based” or “fee-only.” Typically, you’ll pay a fee around 1% a year for the assets in your portfolio. With a \$400,000 portfolio, for example, you might pay the advisor about \$4,000 a year no matter how much trading you do, so this arrangement may be suitable if you tend to change

“Some investors like the idea that the advisor’s compensation will go up only if their portfolio value increases.”

your holdings frequently to take tax losses or rebalance your asset allocation. “Some investors like the idea that the advisor’s compensation will go up only if their portfolio value increases,” says Philip Palaveev, president of Fusion Advisor Network, Seattle. “They like being ‘on the same side of the table’ with their advisor.”

Flat fees. Some fee-oriented advisors will quote you a fixed rate for their annual services. You’ll know what your outlays will be, and you may receive financial planning advice in addition to investment management.

Be sure to discuss compensation with your investment advisor so you’ll know what you’re paying and what services you’ll receive. **\$**

Following through: Go to www.resourcem.com/dev/documents/rmiller_article_5.pdf for a review of the pros and cons of various compensation arrangements.

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Retirement: Be Flexible With Portfolio Withdrawals *(Continued)*

the rate of inflation to maintain your spending power. If you withdraw \$20,000 in year one and inflation is 3%, you’d withdraw \$20,600 in year two. Going by historic results, your portfolio has a high probability of lasting 30 years or longer.

“We suggest clients start with a 5.5% rate if they’re willing to forgo automatic annual inflationary increases.”

However, this assumes a worst-case scenario. If your retirement years occur when financial markets are better than a worst case, you’ll have withdrawn less than you could have afforded and lost out on spendable cash.

“We suggest clients start with a 5.5% rate if they’re willing to forgo automatic annual inflationary increases,” says Jonathan Guyton, principal, Cornerstone Wealth Advisors, a financial planning firm in Edina, Minnesota.

With an initial 5.5% withdrawal, you’d take \$27,500 from a \$500,000 portfolio in the first year. However, if you start at 5.5%, you should be willing to freeze withdrawals or even reduce the withdrawal amount when markets plunge and the size of your portfolio shrinks. Conversely, you can increase withdrawals by more than the inflation rate if your portfolio grows sharply. **\$**

Following through: At <http://spwfe.fpanet.org:10005/public/Unclassified%20Records/FPA%20Journal%20March%202004%20-%20The%20Best%20of%2025%20Years%20Determining%20Withdrawal%20Rates%20Using%20Histo.pdf>, you can read the breakthrough article that introduced the 4% rule.

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