

Instructions for Students Creating Budgets as Part of Their School's Course Requirements

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The budget program found at www.finsim.umn.edu, also known as the financial simulator, was created by the Hospital Director at the University of Minnesota, David Lee, DVM, MBA. It has been altered and perfected using Dr. Wilson's editorial oversight gained from answering questions about it at dozens of veterinary schools where it currently is in use. The presence and maintenance of this sight is graciously **sponsored via an educational grant from VPI - Veterinary Pet Insurance**. Because the program must be updated with the newest tax code each year, all calculations are made on the site where it is housed at the University of MN. This allows students to print hard copies of the budgets they produce but precludes them from storing electronic copies on their personal computers.

It is a superb tool for students to use as they begin veterinary school and would like to determine what it will cost for each year so as to determine how much money they need to borrow. It is an even better program for students who are planning their financial affairs as they prepare for life after graduation, an internship and/or a residency. At least six schools at which Dr. Wilson teaches feel this exercise is so important that they require their students to submit a budget to pass the school's business management to career development class.

Using this UMN program effectively requires understanding how best to use this extraordinary tool. Those people who take the time to follow these instructions as they fill in the numbers accurately will produce budgets that are light years ahead of those who do not.

BACKGROUND

1. Please understand that if you are or have been a student at one of 18 to 20 schools at which Dr. Wilson teaches per year, you may already have received the University of Minnesota budget program guidelines in his "Contracts" or "Personal Finance" hand outs. The site where you can enter your data is located at www.finsim.umn.edu.
2. Basic starting points for all students.
 - a. Assume your employer is paying for 80% of your health insurance and 100% of your other uninsured medical expenses. (Actually, the % paid by employers has been going down in recent years because costs for health insurance have been going up so fast. Many employers now provide a fixed monthly amount varying between \$200 and \$300 for newly hired associates.)
 - b. Because most employers provide it as a benefit, assume your employer covers 100% of your professional liability insurance & license defense rider. (If not, the costs for this important coverage are in the "Contracts" hand outs.
 - c. Assume you are paying for all of your disability income insurance (~ \$800 to \$1,000/year & renter's insurance (~ \$240/year).
 - d. Assume you are paying cost plus 10% for pet food and 50% of the veterinary retail for your pets' medical services and products.
3. Students planning for **Internships**.
 - a. Understand that unless you have some savings as you commence your internship you will need to determine how much and from source you can borrow enough to cover the deficits your budget produces. For many students, the negative number produced by the gap between their internship salary and expenses will make it financially impossible to complete an internship.
 - b. Understand also, that in order to complete an internship, you may need to qualify for an "in-school" student loan deferment (one at a post-secondary school institution), request forbearance or consolidate

- your federal direct loans under the Income Based Repayment option. (See the hand out entitled Student Loans 101 for more information about each.) In most of these the interest on all of your **unsubsidized** Stafford, Grad Plus and private loans will cumulate during the internship. In all except the ones at post-secondary institutions, the interest on the **subsidized** Stafford loans also will cumulate.
- c. When you do this budget, it is likely that the summary page will produce a **negative number. It is okay to end with a budget that has a negative number – as long as you understand that you will have to figure out how to close this gap during the time you are an intern.** This helps you understand how much money you will have to earn from emergency calls attended during the internship to make up the deficiency or from money you will have to borrow. If your only choice is to use credit card debt to fund the deficiency, you probably should not do an internship.
 4. Students planning to complete **Residencies.**
 - a. The only sensible course here is to do a budget for your internship year, knowing that your income in subsequent years will not improve by more than a few thousand dollars per year until you have completed the residency.
 5. Budgets for **Couples.**
 - a. If you are expected to submit your budget to complete the requirements of a veterinary school class, indicate on the top of the page you hand in that this document reflects the income and expenses of a couple.
 - b. Option 1: Do a joint income and expense budget encompassing everything you earn and spend together. Make sure you select “m” (for married) on the bottom of the summary page. Once you have done that, decide the percentage of the total expenses for which you will assume responsibility and multiply that times your total expenses. This now becomes the starting point for your “need” and “want” budgets.
 - c. Option 2: Even though you plan to live as a couple, build out your entire income and expense projections as if you were single, then, select “s” on the summary page. Doing this will provide you with the reality of what could happen if you are no longer living as a couple post graduation.
 - d. For couples with children, the number of dependents can be entered on the summary page prior to determining the income needed to balance your budget.

HOW MUCH WILL I EARN?

1. As a new graduate applying for and interviewing for a job, you must identify your financial needs (and wants) well before you start looking for employment. That means creating a PERSONAL BUDGET **before** you ever answer a classified ad or send out your resume and cover letter seeking a position. **If you do not complete this important step, you’re not ready to start the job search or negotiation process because you won’t know whether or not you can accept any of the offers you receive and still survive financially.**
2. As part of your initial discussion with potential employers, it will be critical to ask about a) the **number of clients you will see per day** and b) your likely **Doctor Average Client Transaction fee** (DACT) number. The best way to approach this is to ask for the ranges of numbers that exist for these two criteria for associates already working at the practice so you can use this as a reference point.. Once you have this information, you can use the “Salary” tab in this financial simulator to calculate your potential salary income.
3. Many internships and residencies as well as veterinary practice owners pay flat salaries for the first year of employment. This makes life simpler for them but does not provide any motivation for their doctors to work extra hard, attend cases in the last few minutes before the office closes or stay late seeing last minute appointments or emergencies.
4. Nearly an equal number of private practice owners pay base salaries and apply a production-based compensation formula to their associates’ efforts. These parties usually reconcile the production numbers for their doctors on a monthly or quarterly basis and pay the base salary or the production bonus number, whichever is higher. Dr. Wilson’s 435-page textbook entitled *Contracts, Benefits and Practice Management for the Veterinary Profession* and his “Contracts” hand outs explain this common method for paying associate veterinarians.

PUTTING THE PROGRAM TO USE

The following text contains the efforts to provide clear instructions for the use of the 2010 Personal Finance Simulator found on the University of Minnesota's website. As you complete your budget, make sure you have zeros or numbers in all of the fields. **DO NOT** enter "dashes, the letter "o" in place of a zero or "n/a." for "not applicable" in any cells as these will foul up calculations on the *Summary* page

1. Go to the website www.finsim.umn.edu, where you will find the 2010 Personal Finance Simulator.
2. Click the **INSTRUCTIONS** link and read through them carefully.
3. Click **STUDENT LOANS** and fill in the appropriate cells for up to four student loans where you expect to have different interest rates or terms of years. If you have more than four and the interest rates or repayment periods vary, you will have to group some of them together and determine the average each group you plan to enter in each of these four cells.
 - a. If you are lucky enough not to have any student loans, write down the monthly payment for the default loan number found in the *Amount Borrowed* field. Once you have done this you will find that later in this set of instructions and the simulator you will be prompted to enter the money you would have to spend per month to pay off the mean annual debt monthly payment under the tab entitled *Personal Savings*. The rationale for this move will be articulated below.
4. Click **SALARY** and you will see fields to enter *Days per Week, Hours/Day, and Vacation/Sick/CE Days/Year*.
 - a. It is here that you estimate the number of clients you can or will see per day, the number of days that will be worked per year, and the *Dr. Average Client Transaction* (Dr. ACT) fee for any given job offer. You will now see why asking questions during your job interviews about numbers of clients you will see per day and Dr. ACT's is so important.
 - b. **BEFORE** you fill any of these in, read the text boxes under the *Reality* column to the right. These provide background information related to these topics.
 - c. Once you have entered this information, you can insert the production-based percentage figure offered by the practice (20% in many small animal jobs and 25% in large animal and equine jobs) so as to calculate your potential revenue production and, thus, your *Possible Salary* for the year.
 - d. If you have multiple sources of income, including income from a spouse or significant other, rental property, a trust, stock dividends and/or interest from a certificate of deposit or other investment, you will have to add all of these items together and place the sum in this "Other Income Including Spouse/Significant Others" cell. Once that is completed, the spreadsheet will generate a *Household Income* figure on this page that includes everything from prior cells. This number will be carried forward to the *Retirement Savings* worksheet and from there on to the *Summary* sheet.
5. Continue down this page and, **AFTER** reading each section's corresponding box in the *Reality* column, fill in the cells on the left hand side as appropriate. You now see why it is so important to ask potential employers how many clients you are likely to see per day and what the *Average Dr. Client Transaction* (Dr. ACT) is for various doctors at the practice. If the employer is unable to estimate the number of clients you will see per day, at least try to find out what the range is for the Dr. ACTs. Armed with that piece of information, you can play with entering various numbers of clients/day in the appropriate cell. Doing this will allow you to determine how you can at least make or, hopefully, beat your base salary – as long as you can achieve the same Dr. ACTs as you enter on this page of the budget program.
 - a. If you will not be receiving a percentage of production, make sure you enter a zero in the *% of Production* field.
 - b. If you do enter a zero in the *% of Production* field, you **MUST** then enter *your* projected flat salary in the *Other Income Including Spouse's/Partner's* field that includes your spouse's, significant other's or partner's and/or other sources of income, e.g. from a trust, if any.

6. Click **CREDIT CARDS** and fill in the cells for one credit card. If you have outstanding credit on more than one card, enter the total amount of this type of debt and an average of any variation in interest rates.
 - a. If you do not have a credit card balance, make sure that you enter zero in the *Balance* field.
 - b. To understand the impact of various interest rates, try changing the rate and see how long it takes to pay off the balance.
 - c. To understand the impact of a more robust monthly payment, change the amount on that line and watch it change the cell below that calculates the time required to pay off the balance.
 - d. **Caution:** Even if you **DO NOT have any credit card debt and place zero in the cell recording your “balance,” DO NOT change the minimum monthly payment to any number less than \$1!** If you change this cell to zero and enter it, you will immediately see the words “Note – Insufficient Monthly Payment” appear in red below these cells. This, in turn will foul up the calculations and produce the “NaN” message when you get to the summary page. In fact, anytime the minimum monthly payment you place in that cell is lower than that which would be allowed as a monthly payment on your credit card debt, this message appears. If it does, you have to continue raising the monthly payment to a number where the message disappears.

7. Click **AUTO LEASE VS. BUY**. Since most recent grads are likely to own a car they plan to keep, they are not likely to have to enter any data on this sheet. If you have an existing auto loan or plan to buy a vehicle, you only need to fill in the column on the right. If you want to compare options for buying with leasing, fill in the column on the left as well as the one of right. To complete this comparison, you will have to ask the dealer for the *Money Factor* connected with the lease. Rework this section using different years for repayment and interest rates to your heart’s content.
 - a. If you are not planning to purchase an automobile in the near future, enter (or leave) zeroes in the bottom beige cells that answer the question “Number of cars to lease or buy.”
 - b. To fully understand all of the entries under the *Output Data* section of this sheet, it is important to understand that the car’s depreciation is “built into the lease.” In this case, you have no equity in the vehicle at the end of lease but still own the car at its depreciated value at the time you pay off the loan. This is a huge difference between leases and purchases.
 - c. To make the most tax-effective decisions on leasing vs. buying, you most likely will need to talk with a CPA who understands your personal tax situation.
 - d. **Caution:** If you are not buying or leasing a car Do NOT reduce the number of years in either of these columns to zero. If you do, you may see the “NaN” sign appear in the cells at the bottom of this sheet and it will foul later calculations on the summary page.

8. Click **HOME EXPENSES** and make entries only if you are planning to purchase or already own a home.
 - a. If you own or are purchasing a home and the numbers generated under the *Output Data* section are acceptable, select Y from the *Purchase Home? (Y/N)* drop down box.
 - b. If the numbers are inaccurate, fill in the cells with accurate ones. Understand that the beige cells automatically alter the white cells under the *Output Data* section so you may have to live with some inaccuracies.
 - c. If you are renting, accept the default “N” in the *Purchase Home? (Y/N)* drop down box.
 - d. If you own or are contemplating purchasing a home, be sure to look at the line on this page entitled *Tax Benefits per year*. This builds annual mortgage interest and property tax deductions into your tax savings as a home owner.
 - e. As with the auto sheet of this spreadsheet, **if you are not buying a home, DO NOT** reduce the number of years you will use to pay for a home to zero. As mentioned above, if you do this, you will again see the “NaN” appear in the cells at the bottom of this sheet and it will screw up calculations on the summary page.
 - f. This section of the budget program can also be used “in reverse.” That means that users can use the amount of rent they are paying on a monthly basis and work backwards into applying that money toward the purchase of a residence. In other words, if you are paying \$1,000 per month for rent, you could easily afford to purchase a \$150,000 home with a 10% down payment of \$15,000 and a thirty year mortgage at 5% interest.

As you will see, with estimated property taxes, maintenance and insurance for such a purchase, the monthly payment comes to \$1,062. However, this fails to take into account the tax savings from the annual interest and property taxes you will pay because you are a homeowner. We will next work the math here to illustrate this point.

In the first year of the above mortgage you would be paying \$6,700 of interest plus \$1,500 in property taxes, both deductible on a "Schedule A, *itemized deduction* tax return." The total of these two amounts is \$8,200 which is considerably more than the \$5,450 allowed in 2010 for the *standard deduction*. Assuming other Schedule A itemized deductions amount to \$2,250, for a total of \$10,450, you will have \$5,000 more in deductions than you would have without the ownership of a home.

Since most of you will pay 30% or more in state, federal, FICA and Medicare taxes within a year of graduation, this amounts to a \$5,000 which, times a 30% tax savings, = \$1,500/year. That equals \$125/month available for the purchase of a more expensive residence. Add \$10,000 to the cost of a home \$160,000 and the total monthly costs as shown in the budget program now comes to \$1,138.

Thus, the moral of the story is that if your rent is \$1,000 per month, you can afford to purchase a \$160,000 residence and build equity in a home, rather than spending all that money for rent. Even more important, with a good choice of real estate and the proper TLC, the value of the home you have purchased will appreciate, adding even more bang for your buck.

9. Click **RETIREMENT SAVINGS**. This section will automatically require that you place money into a retirement savings plan. It does this by defaulting to a built-in percentage. The nice thing about this is that for those who do not invest the default amount of their income in their retirement savings plan, at least it will help them build a cushion for all the expenses they are likely to omit. In most cases, the easiest thing to do is simply ignore this sheet unless one of the following exists.
 - a. If you are considerably over the age of 25, you should enter your current age.
 - b. If you are lucky enough to have any money in an IRA or other pension or profit-sharing plan, enter the *Value of Your Current Retirement Savings* in that cell.
 - c. Until we can change the master FinSim document at the University of Minnesota, it would be wise to make sure the *Expected Rate of Return During Retirement* is closer to 8% instead of the current 12%. It is doubtful that investors will see anything like a 12% return on investment for the foreseeable future.
 - d. As you make entries that advance your current age, notice the remarkable increase in the dollar amount in the bolded line at the bottom that says *Amount to save each month*.
 - e. For many of you, if you expect to be able to retire someday, you will either have to save a huge amount of money per month or change the line that says *Retirement Age* to 70 or 75! Lovely option, right?! Alternatively, you can save money by buying a veterinary practice or some rental property and have the equity in those investments help fund your retirement years.
 - f. Please note that entries in your *Current Age* and *Retirement Age* will not only affect this page but also have a dramatic effect on the bottom lines of the *Summary* page that appears later in this budget program.
10. Click **PERSONAL SAVINGS** and fill in the various fields to fit your plans. As of 2010-11, it probably is best to change the *Interest Rate* cell to 3%.
 - a. As mentioned in Number 3 a, above, if you entered zero in the *Amount Borrowed* field in the *Student Loans* section, place \$1,496, the 2010 mean education debt figure, in the *Amount Saved per Month* field.
 - b. This places your starting point budget on a par with the average U.S.A. veterinary graduate who has the mean educational debt **BUT** gives you lots of downward "wobble room" on salary when negotiating with employers.
11. Click the **SUMMARY** page and fill in the three *Renters* fields **ONLY** if you selected N from the *Purchase Home? (Y/N)* drop down box in the *Home Expenses* section. Then, fill in **ALL** the following cells that apply to your situation.

- a. When you get to the *Disability Insurance* line, please click on it. This takes you directly to the AVMA GHLIT website so you can accurately assess the number you should enter here. Every new grad needs disability insurance so you must do your research and enter a number here.
 - i. Understand that the most disability income insurance any company will sell you is an amount equal to 60% of your annual earned income.
 - ii. If you don't have time to contact the GHLIT, **enter \$75 per month** here. This assumes an income of $\$70,000 \times 60\% = \$42,000$, all of which will be nontaxable income if you have purchased this insurance yourself, instead of having received it from your employer as a nontaxable benefit.
 - iii. There is nothing wrong with receiving disability insurance through one's employer as long as the lucky associates who have this option obtain supplemental disability income insurance as a part of a group policy and in an amount sufficient to cover the taxes that will be due on the insurance proceeds that are received as a nontaxable benefit if one becomes disabled.
 - iv. Women who plan to reduce their work schedules to deliver babies and raise their children should purchase the maximum level of disability insurance they can purchase (and afford) **BEFORE** pregnancies and/or children reduce their work schedules. This enables them to purchase the amount of disability income insurance they will need when they stop work or reduce their schedules to part time, if they end up as the primary stay at home parent for many years. Men should do the same if they plan to work part-time as the primary child care provider. Take time to visit the www.petinsurance.com website so you can see what accident, illness and well care would cost per month for your various pets.
 - b. Please note that the *Retirement Savings* and *Summary* sheets in this program *force* you to put away some money for retirement whether you want to or not. You will see this reflected in the difference between the *Household Income* and *Adjusted Gross Income* calculation that appears immediately after the *Total Fixed and Variable Income* light blue line on the summary sheet. These calculations are coming forward from the entries you made in the *Retirement Savings* and *Personal Savings* sheets you made previously. Though the *Personal Savings* sheet allows you to control your entries, the *Retirement Savings* one cannot be overridden.
 - c. Understand that if you do not actually place any money in a tax deductible *Retirement Savings* account as illustrated here, you will pay more in taxes each year but also have more cash to pay your expenses.
 - d. Unfortunately, because of the difficulties associated with building all types of tax issues into this simple budget program, it is not able to calculate the actual tax or tax savings associated with the following:
 - i. Deducting the interest on your educational debt;
 - ii. The impact of sources of income other than "earned" income that you might enter on the *Salary* sheet (from rental property, trusts, dividends, etc.);
 - iii. Deleting the mean educational debt numbers from that page and, instead, inserting that money into your *Personal Savings* sheet or
 - iv. Funding your tax deductible *Retirement Savings Account* at different levels. That requires far more sophistication of the type that can be purchased in a software program such as *TurboTax*.
12. Continue scrolling down and enter your correct *Marital Status* and number of *Children for Tax Purposes* at the bottom of the *Summary* page.
 13. Unless you know the correct percentage for your state's income tax, click on the link entitled *State Taxes* at the bottom of the *Summary* page to find your state's tax. If you live in AK, FL, NV, SD, TX, WA or WY enter zero as these states do not have an income tax. Otherwise, just pick the tax rate in your state that reflects an approximation of your taxable income. You will notice that most have graduated income taxes. This makes it difficult to enter any one number. Thus, you will have to insert a number that reflects an accumulation of the percentages you see on this www.taxfoundation.org website.
 14. Go to the top of the *Summary* page and print these pages of the budget. Unfortunately, you cannot save an electronic version of this document to your computer. This is because all of the calculations are being done at

the University of Minnesota's website and Dr. Lee needs access to this spreadsheet there to update it on an intermittent basis.

15. For most of you, you can ignore the last tab at the top of the menu that says *Taxes*. This merely shows how the tax code is being applied to the figures you have entered in the rest of this program. For the curious students, you can see how it works by changing the single status to married on the *Summary* sheet. Then look at the tax schedule that is being applied to your entries. You will see that one is for a single person while another is for married filing jointly. We do not have a married filing separately tax code built in because in 98% of the cases, this results in higher taxes than married filing jointly.
16. Double check all of your entries and, using the "Print" tab at the top left of the screen, print your results.
17. Save copies of the budget(s) you print in the great binders VPI –Veterinary Pet Insurance has provided for you under the Personal Finance tab so you can:
 - a. Develop "need" vs. "want" budgets as discussed in class,
 - b. Refer to them as you use the cost-of-living calculators that follow this section,
 - c. Update them after you track actual expenditures for a month so you can see how far off your "guesses" were,
 - d. Develop progressive budgets as your debt levels or repayment plans and terms change and
 - e. Use them effectively when negotiating with employers.

Final Comment: If your expenses exceed your after-tax income on the Summary Sheet, you will need to go back and adjust the term of your loans from the initial 10 years to a number higher than that but no more than 25 years. That is the maximum length available for loan extensions as of 2010. Alternatively, you will have to adjust your living expenses downward. Other adjustments to major expenses could include forgoing the purchase of a car, living at home or sharing an apartment with a roommate.