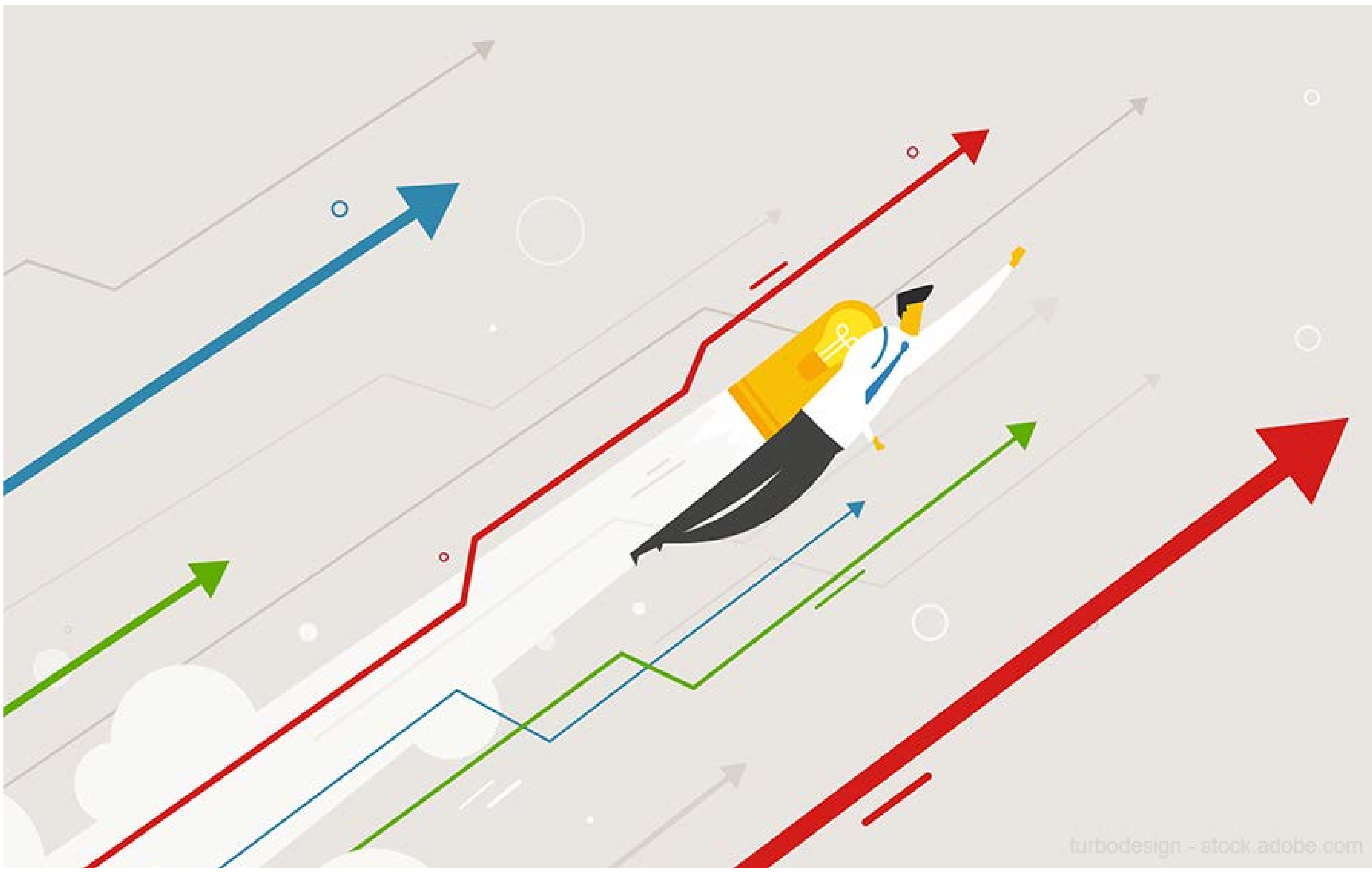
Medical Economics®

Best financial practices for busy doctors



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October 15, 2019
News, Money

Doctors are unique. You've spent years in undergrad school, medical school, and residency. Now, you are responsible for managing the health of your patients. Between clinical and administrative duties, coordinating with other physicians, and keeping up with medical research and advances, you're wearing a lot of hats. So many, that it may become easy to overlook your own financial health. It's often said, "doctors make the worst patients." It is no different with financial advisers and your financial health. If you don't take care of yourself now, you will pay the doctor later.

Three Main Areas of Practice

Successfully managing your financial health can be broken down into three essential areas of focus. The first is critical care: creating a roadmap to achieve financial security while you work and after you retire. The second is maintaining wellness: This includes regular “check-ups” and adjustments to keep your plan on track. Finally, specialized engagements address lifestyle-related issues that arise as your professional and personal lives evolve.

Critical Care

Like caring for your patients’ physical health, the first step in managing your own financial health is gathering data and creating your roadmap for success. The data you will need includes income, expenses, housing, family, insurance, taxes, investments, and goals, both personal and financial. Over the course of your life, there will be changes, adjustments, and additions to your financial plan, but there are certain pieces that you will want to put in place early. These include:

• Set Up a Savings Plan: As a young investor, one of the most important concepts to understand is the power of compound interest. Saving early is arguably the most important component of your financial plan. First, you’ll need to determine how much you should save and how much you are actually able to save. Next, you must decide where you will save, e.g. qualified retirement plan, SEP-IRA, brokerage account, or trust account. Lastly, determine how to allocate those savings according to your financial goals which may include saving for retirement or future college expenses, purchasing a home, or reducing debt.

• Establish a Budget: Identify fixed monthly expenses and variable expenses for yourself and your business. Establish emergency funds for unexpected expenses.

• Debt: Be sure to include any school, mortgage, or credit card debt in your budget. Assess whether you can lower your monthly medical school loan payments by consolidating and taking advantage of lower interest rates.

• Evaluate Risk: There are multiple types of risks, including:

o Market risk: This is the delicate balance between taking on enough risk to obtain the growth you need while protecting yourself in the event of a severe market decline. Make sure your savings are invested in alignment with your goals. You will need a mix of stocks and bonds. The stocks will provide the long-term growth and inflation protection, while the bonds will serve as a buffer against market declines. The right mix of stocks and bonds will depend on your personal goals and tolerance for risk.

o Business Risk: The risk that you will be sued, either personally or professionally, means you could be wiped out financially. Malpractice insurance is an important component of your business insurance, while an umbrella policy would add additional liability coverage to your homeowner's insurance in the case of a frivolous lawsuit.

o Personal catastrophic risk: Ensure that you have adequate life and disability insurance.

Maintaining Wellness: Staying Healthy Requires Regular Care

It's important to review your financial plan regularly—or immediately in the wake of a significant life event such as marriage, birth of a child, a health event, death of a family member, divorce, or changes in your practice.

Once each year, review your roadmap, including:

• Investment Planning: Make sure your asset allocation is still appropriate given your risk tolerance and goals and rebalance or change your portfolio if necessary.

• Retirement Planning: The retirement landscape is changing. Americans are living longer, which means they will require a larger pool of assets to support themselves during the 20 or 30 years of retirement. Use a retirement planning tool or meet with your advisor to be sure you are on track.

• Insurance Planning: Review existing coverages and identify any uncovered risks, including health, disability, life, personal liability, business insurance, and long term care insurance.

• Estate Planning: It is critical to have a plan in place so that you have control over how your assets are distributed at your death and who is given authority to make medical and financial decisions on your behalf in the event of your incapacity. By planning ahead, you can also reduce taxes on what you leave behind and minimize the chances of unpleasant and costly family legal battles. Once your plan is developed, it is important to regularly review beneficiaries, trustees, health care representatives, and guardians.

• Tax Planning: It is important to ensure your tax plan is coordinated with your investment and estate plans.

• Lifestyle Planning: Revisit your goals for your housing, activities, and business including succession planning and multi-generational planning.

Specialized Medicine

As your life and practice evolve, you will encounter issues that call for specific financial actions. Some of the most common topics include:

• Planning for your Long-Term Care: How will you pay for additional care that you or your spouse may need as you age? Will you purchase insurance or self-insure?

• Housing: Upsizing, downsizing, second homes. Buy or rent? Choosing the right financing.

• Multi-Generational Financial Planning: Work with your parents to make sure they are making adequate plans for their later years. Speak with your children to ensure they are working toward financial independence and intelligence. https://www.obrienwp.com/families-and-money/

Four Key Takeaways

Paving a path to financial security requires time and effort—two commodities in short supply for busy physicians. In a study performed by Vanguard, they determined that making smart decisions can add up to 3 percent to a portfolio's return. This could add many to the longevity of your portfolio and set you up for long-term success. Starting early is ideal, but it is never too late to begin.

Here is a summary of the most important steps to managing your financial health:

• Begin planning or, at a minimum, saving early. Understand the retirement options that are available to you.
• Cover your risks: business, life, and disability.
• Review your roadmap periodically and after all major life events.
• Coordinate your investment, retirement, tax and estate plans to ensure desired results.

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