Protecting Your Financial Future

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Most financial planning advice for doctors is geared toward recent graduates, and for good reason. Many begin their careers with massive debt and earn modest pay during their residency. But careful financial planning is equally important in the middle to later stages of your career, when your income and perhaps your family is growing and as retirement nears. Different life situations require different financial strategies.

To help you navigate this journey, the American Osteopathic Association has created *Protecting Your Financial Future,* a roadmap to guide you through the various stages of your life.

Life Stages

From marriage to mortgages to kids to college savings and beyond, your life situation will change over the years, but the need to evaluate your finances at every phase will remain constant. It's important that your financial strategy meets your current needs.

In your 40s, when you've reached your peak earning years, your focus may shift from student loans to paying off a mortgage or saving for your child's college fund. In your 50s, you may be thinking about protecting your assets and ensuring that you're on track for retirement. And when retirement is right around the corner, your biggest priority will likely be having enough money to maintain your lifestyle.

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The career stages of a physician are a bit different than those of other professionals. Most doctors enter the job market nearly a decade later due to the additional school and training required, which means they get a late start in building their nest egg.

Given these unique circumstances, you need to make sure that you maximize retirement investment vehicles like 401(k) options, defined benefits, profit sharing, IRAs, and Health Savings Account (HSA) plans. This will lower taxable income and boost your retirement accounts.

Physician and financial planner Joel Greenwald advises clients to review their financial plan whenever their life situation changes. He suggests creating a debt spreadsheet that includes student loans, mortgage(s), credit card debt, and home equity loans. He also urges clients to review their spending habits, saving patterns, and investments to make sure that their choices support their long-term financial goals.

A Financial Planning Road Map

In Your 40s

You've settled into your job and are hitting your peak earning years. You've probably been putting away some money for your children's college fund but now it's time to firm up your plans. It's also a good time to review your outstanding debt, your investment plan and your tax situation. Here are a few things to consider:

- **College planning.** Take a look at what you've saved so far, how many years remain until you need it and what the cost of tuition will be. "There are a lot of ways to go with this," said Greenwald. "Some people say, 'I'll pay for state school and my kids are on the hook for the difference. Others say 'I'll pay every penny up to $75,000. Education used to be a bump in the road but now it's a much bigger hurdle on the road to retirement. It's very important that the couple gets on the same page and communicates their plans early on to their children."

Both paying off debt and investing contribute to your net worth, so however you allocate your money is fine, as long as you are building wealth.

- **Paying off debt and investing.** As you begin looking at retirement, you should have a good portion of your student loans and mortgage paid down, according to Colin Wiens, a Florida-based financial planner with Larson Financial. This will allow you to build up your retirement accounts and to invest. Both paying off debt and investing contribute to your net worth, so however you allocate your money is fine, as long as you are building wealth.

- **Diversifying taxes.** Most investors know about diversifying their portfolio to reduce overall risk, but many overlook the importance of diversifying the way their investments are taxed, according to Wiens. Most accounts fall into the following three categories:
    1. **After-tax holdings,** which are your basic savings and investment accounts
    2. **Tax-free holdings,** like Roth IRAs, that allow you to avoid future taxes on the investment
    3. **Tax-deferred holdings,** which are contributions made to your 401(k) and other workplace retirement accounts. Your earnings accumulate tax-free until a withdrawal is made

- **Have a little fun!** If you're on track with your financial goals, now is a good time to splurge a little. If you want to ski the Alps or buy a vacation home, do it now while your knees are good and your kids are young. "Just make sure you've gone through your financial plan," Wiens said. "Otherwise, there will be lots of guilt associated with your spending and that's not fun at all."

In Your 50s and 60s

You've worked hard, saved diligently, and built equity in your home or your medical practice. This is a good time to look at protecting your assets and review your insurance needs.

- **Changing insurance needs.** Start dropping some of your disability and term life insurance. "If you've accumulated lots of assets, the need for insurance may be declining," said Wiens. "By the time you're in your late career, your kids are launched and you've accumulated enough money that if you die, your spouse won't need all that insurance. You can start decreasing your coverage and save money on the premiums."

- **Protecting investments.** It's time to review your risk tolerance. "If you plan to slow down in the next 15 years, protect your capital instead of growing it," Wiens said. "Is your investment risk necessary to accomplish your goals? If not, then scale back to a more conservative investment approach."

- **Evaluating your nest egg.** At this point, you've probably grown accustomed to a certain lifestyle and would like to maintain it. It's time to evaluate your nest egg and your current annual savings rate to see if you're on track. "We don't want someone to cut their lifestyle expenses in half on Monday because they retired on Friday," he said. "In their 30s people don't know what lifestyle they want, but in your 50s you know that you like your house, your vacations, your dining out. If your current nest egg won't allow for that, you either have to save more or decrease your expectations."

Selling Your Practice

- A **guide** to securing valuation, transitioning roles, transferring medical records and notifying patients

- A **checklist** for closing a practice

- **Questions** to consider before selling your practice

Preparing For Retirement

Everyone wants a comfortable retirement, but many physicians are not saving enough or taking full advantage of employer-based savings programs, according to a 2015 study by Fidelity Investments.[1] Many feel that they can't afford to because of student debt and practice-related costs, although typically, physicians are well-compensated. In order to make sure that you are on track, here are a few things to consider:

When to retire. During this time of increasing life expectancy, attitudes about if and when someone should retire are changing. With a shortage of physicians and a growing interest in osteopathic medicine, there are no hard and fast rules on when to call it quits. Remember, you don't have to go from working full-time to not at all. Many doctors transition gradually into their "golden years," choosing to work part-time for a while.

1 https://www.fidelity.com/about-fidelity/individual-investing/financial-well-being-of-physicians

Phased retirement. Scaling back hours and working part-time can help you transition emotionally, but it also has financial benefits. "It's better to work two to four additional years and put off into tapping those retirement accounts," Greenwald said.

For those who didn't plan well or had an unexpected life event that knocked them off track, working part-time can help bridge the gap.

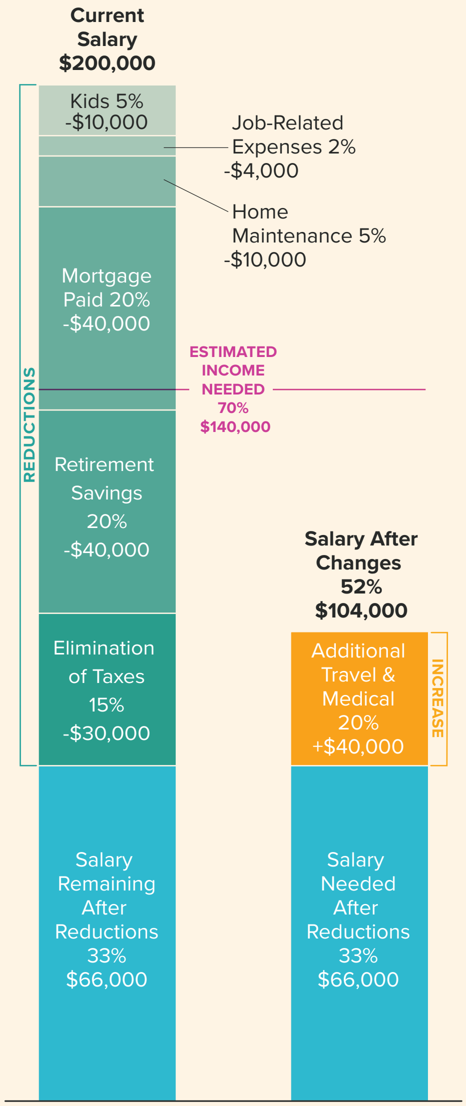
How much will you need to maintain your lifestyle?
A common rule of thumb in planning for retirement is that you need 70 percent of your current income to maintain a similar lifestyle during retirement. That number is probably much less for doctors due to a lower tax burden, according to Ryan Inman, a fee-only financial planner and president of Physician Wealth Services.[2] Your income will be derived from your retirement accounts and you won't be paying Social Security or Medicare tax. Since you'll be earning income that is tax deferred or exempt, your federal income tax is likely to be lower. And most likely you've paid off your mortgage, which takes up about 20 percent of your income. Also, while it sounds obvious, many people overlook the fact that you don't have to save for retirement when you're retired, according to Inman.

Whatever you decide, it's important to consult with your financial planner who can help you walk through the ifferent scenarios. You've spent decades putting patients on the path to physical wellness. Now is the time to tend to your financial health.

2 https://financialresidency.com/retirement-number

A Retirement Example

Financial planner Ryan Inman points out that while most retirees will need about 70 percent of their current income to maintain their lifestyle in retirement, physicians require far less, in large part because they have a lower tax burden. He breaks it down in this example:



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