

Money Mistakes Doctors Make

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Physicians must have a lot on their minds these days, from the changing health care landscape to patient's needs. Thus, there is not a lot of time at the end of the day to allow physicians to focus on their personal financial matters. Through decades of experience with numerous doctors, we have come across several key mistakes that could threaten their financial health. Avoiding these common mistakes could help to prevent potential pitfalls in the future:

Lack of a financial plan

Many doctors run their businesses by adhering to well detailed plans. Some, however, neglect to put their personal finances through the same scrutiny. A comprehensive financial plan can be the foundation of a doctor's professional well-being. Financial plans focus on:

- Retirement planning
- Education funding
- Asset accumulation
- Risk management
- Tax analysis
- Estate planning

Many of the common financial mistakes we will discuss can be avoided by having a comprehensive financial plan to guide a physician through tough decisions. Physicians should think about their goals and dreams, about how and when they want to achieve those dreams. Having a well thought out plan is a key to financial success.

Being under insured

Among the most common mistakes we see are doctors who are underinsured for disability. If an injury or an illness stops a physician from working, his or her financial livelihood may be in jeopardy. It is very important to speak with an insurance agent regarding a true "own occupation" disability policy that can cover a doctor's expenses if a disability were to occur.

The "own occupation" means that the disability prevents the doctor from being a doctor. There are other disability policies that define disability as not being able to perform any job. So this means if the doctor could flip burgers, under that policy he would not be considered disabled. However, not every "own occupation policy" is the same. It should contain language regarding the medical specialty a doctor performs as well. There are many options to consider in these policies and it is important to have an experienced insurance agent review them.

Overspending and not saving enough

Unfortunately, doctors more than any other professionals we have worked with, seem to fall prey to the 'keeping up with the Joneses' syndrome. Because they have over a dozen years of schooling as well as residency, many physicians feel the urge to spend once they finally start

earning a strong wage. We have seen doctors making \$500,000 a year with a negative net worth. It is important to be fiscally disciplined and not spend beyond one's means.

Doctors, through no fault of their own, are late to the savings game due to years of schooling and residency. This makes it more important to use tax beneficial vehicles like 401(k) plans, defined benefit plans, and IRA's. Based on a late start to savings, a general rule of thumb is: physicians should be saving between 15 and 20% of their gross income in tax beneficial vehicles. However, because this percentage of savings is largely dependent on someone's spending habits in retirement and their investment returns, it is merely a starting point.

Using unscrupulous “advisors”

Most doctors work long hours and spend a great deal of their time with patients. This causes them to delegate a lot of the other aspects of their life including their financial management. Unfortunately many doctors are being sold expensive, low-return financial products that lock up an individual's money for ten plus years. It is important to select an advisor that is acting as a fiduciary for their clients. A great resource is the National Association of Personal Financial Advisors (NAPFA). You can review their website at www.napfa.com and search for an advisor under the “Find an Advisor” tool that is local to your area.

Not understanding tax implications

Many knee-jerk decisions are made with tax implications as an afterthought. There are many complexities in the tax code and things are not getting any simpler. It may be as easy as waiting for long term gain status to sell an investment or as complex as understanding the alternative-minimum income tax result of a Roth IRA conversion. It is important to have a trusted tax adviser guide you to help avoid a negative tax impact.

Market timing

Market timing is certainly not a physician-exclusive issue. It can, however, be financially destructive for physicians. Based on a study by Dalbar, Inc. from 1990-2009, the average investor had a 2.3% average return while the S&P 500 has averaged 8.2% and bonds have averaged 7%. Many investors try to chase what has done well recently, which is the exact opposite of buying low and selling high. Overpaying for a “hot stock” or an oversold sector can severely damage long-term performance. It is important to choose an allocation that you are comfortable with and one that falls in line with your financial plan.

Achieving financial success is an ongoing process. As lifestyle changes occur, adjustments should be made to a physician's financial plan. It is important for physicians to take control of their financial health and hire the right advisers to help them achieve their goals and dreams.

Contact your SVA representative to discuss the development of a financial plan.