Preface

One of the most common misconceptions among the physician community is that doctors make enough money that they don’t need to plan for their financial futures diligently. Of course, this is incorrect as evidenced by the multitude of well-paid physicians who declare bankruptcy or who are forced to work longer than they desire. This phenomenon is not isolated to the lower income-earning specialties, but is represented by all types of physicians including higher income-earning specialists and surgeons. To prevent financial catastrophe, or to simply make the most out of your opportunities, it is important to create and implement a sound financial plan.

What is a financial plan?

A financial plan is simply analyzing your current financial status and means, identifying your short, mid, and long-term goals, and mapping out a plan to reach those goals. This “roadmap” to your goals must include strategies that both build the necessary wealth as well as protect against unforeseen life events. When building wealth, physicians should use the following tools:

1. Fee-based managed investment accounts
   (joint, individual, etc.,)
2. Employer sponsored retirement plans
   (401(k), 403(b), 457, cash balance, etc.,)
3. Cash value permanent life insurance policies
   (unique tax advantages and lawsuit protections)
4. Tax deferred annuities
5. Real estate
6. Private partnerships

To learn more about these accounts and how to use them to grow your wealth in the safest, most effective manner, please refer to our Physician’s Guide to Investing.

Your financial plan must also have the following protections in place:

1. **Life Insurance** - If you die, you want to replace enough of the foregone years of your income for your spouse or other beneficiaries to still carry out the plan effectively.
2. **Disability Insurance** - If you are disabled and can’t provide the same income to carry out the plan, you want to create another source of similar after-tax income for your spouse or other beneficiaries to use.
3. **Tax Diversification** - Diversifying the treatment of your money now, and at retirement, will provide you the best opportunity to pay lower taxes and always have a tax-advantaged source of income regardless of the fiscal and economic environment when
you retire.

4. **Market Diversification** - Making sure that your money is properly distributed across the different types of investment classes minimizes your risk of loss in declining or “bear” markets. Investing some of your money in U.S. stocks, international stocks, bonds, real estate, and other asset classes should help minimize your losses when the market takes a downward dive.

5. **Creditor Protection** - This is also known as “lawsuit protection” and is very important for physicians. Statistically, every doctor will face at least one major lawsuit in their career and the effects of such an event could change your life! If you lose such a lawsuit, the court may look at your personal assets and force you to use them to pay the successful plaintiff. How would your ability to reach your goals, namely retirement, change if half of your assets disappeared in your 50s or 60s? The answer to this scenario is to invest the bulk of your long-term retirement money into lawsuit protected accounts.

### What are the steps involved in starting a financial plan?

Any good financial plan is a product of a good process. Here are the basic steps in a financial plan and what is required from you at each step:

**Step 1: Analyze your current financial situation and means** - This usually requires you to produce copies of all of your recent tax records, pay stubs, and statements of any bank accounts, investment accounts, or loans. If you use a financial planner, you will probably also have to sign financial planning agreements and pay some or the entire advisory fee.

**Step 2: Identify your goals** - Once you have provided a signed advisory agreement, the required portion of the advisory fee, and all of the preliminary information, it’s time to identify your short, mid, and long-term goals and dreams. This will require some thought on your part as no one else can provide this information except for you. You want to make sure that you consider your possible financial goals as well as personal, professional, cultural, spiritual, and family goals.
Step 3: Build the “roadmap” that gets you from your starting point to your dreams as safely and quickly as possible – This step is usually where the financial planner earns his or her fee. They should be able to synthesize all of the data and direction you have provided into a report with a detailed proposal for how to accomplish or at least move toward your stated goals. It should include recommendations on budgetary items, protections, and investment accounts while accounting for conservative rates of investment returns and above-average inflation.

Step 4: Implement the plan – You are now to the phase where you take the advice given and commence the paperwork necessary to implement your newly designed financial plan. You may be required to complete insurance and investment applications and forms.

Step 5: Monitoring the success or your plan – Once the plan is implemented, you need an effective way to monitor your entire financial picture to see how well your actual experience is tracking with the plan. If your financial planner does not offer a way for you to view your entire financial picture in one place, there are several online tools/websites you can use. You should also receive quarterly reports/statements from your investment accounts. Finally, you should meet once per year with the financial planner to review the plan performance and make any necessary adjustments.

Where to start?

Obviously you have already started in a good place. Educating yourself on financial planning will allow you to be more effective at building your own plan or finding the right professional to help you in doing so. If you choose to build the plan on your own, it would be a good idea to at least run it past an experienced professional after you feel it is complete and before you implement any of the plans. If you choose to have the assistance of a financial planner, consider the next two sections carefully and apply them to any prospective planner you contemplate hiring.

Who is not a financial planner?

There are many ideas about what a financial plan is and many of them are not effective.
Perpetuated by salesman and con-artists, these misguided plans have several easy-to-spot hallmarks:

1. **The financial planner offers to build a financial plan for free.** This obviously begs the question “Then how will the supposed financial planner be compensated for his or her time?” The answer is, “They have to sell you something whether it is in your best interest or not.”

2. **The financial planner does not seem as interested to talk about the investment portfolio details and can’t answer basic questions about the market.** Many salespeople rely on dazzling clients with the overall plan, but really have little to no experience with investments. One question to ask any prospective planner is, “how long have you personally been advising clients on their investment accounts?” You can also ask questions such as:
   a. Are you licensed to sell securities (stocks, bonds, mutual funds, ETFs, etc.)?
   b. How do you evaluate the securities you are or will be proposing?
   c. Can you tell me about the market and where you think it is heading?
   d. What have been the two best and two worst securities you have ever recommended?

   These questions will quickly help you understand if the person you are talking to really understands investments and will be playing an active role in the management of your accounts. Otherwise, your accounts could be in danger of under-performance or your costs will be increased because they are using a third-party for the actual management of the accounts.

3. **The investment accounts they offer are commission-based and not fee-based.** Any true financial planner will offer investment accounts where they charge an investment management fee rather than relying on commission-based mutual funds or stocks for their revenue. Commission-based investment accounts give the manager an incentive to move your investments unnecessarily around in order to generate more commissions. The more they buy and sell investments inside of your account, the more costs you incur and the more revenue they generate for themselves. This makes for a conflict of interest between you, the client, and the advisor.
How should you choose a financial planner?

There are some obvious answers to this. You want a planner who is:

1. Physician-only
2. A fee-based investment advisor starting with the first dollar you invest
3. Experienced (many inexperienced salespeople hide this well...be careful!)
4. Easy to work with and likeable

In addition to these points, you should use the *Who is not a financial planner?* section of this guide as a way to screen your potential list of advisors. You should also ask about their process. If they can’t describe something similar to the one outlined in this guide, don’t choose them.

Finally, if you seem to know more about financial planning after reading this guide than your potential planner you should probably look elsewhere for a more knowledgeable advisor.
Summary

We hope you have enjoyed and profited from this guide to financial planning. If you have any questions about the topics or materials presented please contact us using the information below:

Email Us Or Call 888-848-0786

Also, please feel free to view any of our other physician guides that interest you:

Physician’s Guide to Disability Insurance

Physician’s Guide to Transitioning to Practice