



“

A fool and his money
are soon parted.

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MORE MONEY THAN SENSE

ARE PHYSICIANS LOUSY MONEY MANAGERS? THE STEREOTYPE SAYS YES, BUT WE'RE READY TO PROVE OTHERWISE.

Andrea Bonner, COPC

Are you good with money? Deserved or not, physicians have a reputation of neglecting their personal finances. But the fact is that they struggle with the same issues as everyone else: debt, saving for retirement, taxes, and questionable spending habits. Physicians just have more money to wrestle with (and the higher tax bracket that goes with it).

Getting—and staying—on firm financial footing is the key to building wealth that lasts long after your practicing years are behind you. And there are basic, concrete steps you can take to get there. The earlier you can put these practices in place, the better, but it's never too late—you can jump in no matter where you're at in your career.

**STAGE: RESIDENCY/
EARLY CAREER**

GOAL: Build a Solid Foundation

The early years are all about setting up—and then following—a financial plan. And that plan should start with savings. Physicians spend several years in post-grad education, residency, and maybe even a fellowship, so they're already at a disadvantage when it comes to putting money away. Many physicians are in their early 30's by the time they are fully licensed and ready to start practicing (and contributing to retirement accounts). "They're starting from behind, for sure," says Michael Lewellen, CFP®, director of financial planning and partner at wealth management firm OJM Group.

What's the big deal about a being a few years behind? "Because they have to wait to start saving, physicians miss out on a lot of years to take advantage of compounding interest," Lewellen says. Here's an example:



Compounding interest is basically interest that you earn on interest. It's the same thing that can make credit card debt spin out of control so quickly, only in reverse.

Maria, aged 20, opens a Roth IRA and contributes \$5,000 to it each year. Assuming an eight percent interest rate, she'll have \$1,932,528 by age 65. If Maria had waited until age 30 to start saving, she'd have to put away \$11,215 annually to reach that same amount. "Don't wait to start saving," says Lewellen. "If you can start early, you can get to those big numbers."

Don't wait to start saving—THE NUMBERS SPEAK FOR THEMSELVES.

| START | END | ANNUAL CONTRIBUTION | INVESTMENT RETURN | FINAL VALUE |
|-------|-----|---------------------|-------------------|----------------|
| 20 | 65 | \$5,000.00 | 8% | \$1,932,528.09 |
| 21 | 65 | \$5,414.01 | 8% | \$1,932,528.09 |
| 22 | 65 | \$5,863.56 | 8% | \$1,932,528.09 |
| 23 | 65 | \$6,351.91 | 8% | \$1,932,528.09 |
| 24 | 65 | \$6,882.69 | 8% | \$1,932,528.09 |
| 25 | 65 | \$7,459.87 | 8% | \$1,932,528.09 |
| 26 | 65 | \$8,087.88 | 8% | \$1,932,528.09 |
| 27 | 65 | \$8,771.62 | 8% | \$1,932,528.09 |
| 28 | 65 | \$9,616.55 | 8% | \$1,932,528.09 |
| 29 | 65 | \$10,328.73 | 8% | \$1,932,528.09 |
| 30 | 65 | \$11,214.97 | 8% | \$1,932,528.09 |
| 31 | 65 | \$12,182.87 | 8% | \$1,932,528.09 |
| 32 | 65 | \$13,240.97 | 8% | \$1,932,528.09 |
| 33 | 65 | \$14,398.91 | 8% | \$1,932,528.09 |
| 34 | 65 | \$15,667.55 | 8% | \$1,932,528.09 |
| 35 | 65 | \$17,059.26 | 8% | \$1,932,528.09 |

STUDENT LOANS: The Ball and Chain

You might be wondering exactly how you're supposed to start saving early—or even much at all—when you've likely graduated with a boatload of student loans. In 2018, the median student loan debt for medical school graduates was \$192,000. As you probably know, those monthly payments put a serious dent in your savings plan. Should you contribute to retirement accounts, or pay off your student loans as soon as possible?

"There's a balance to that," says Lewellen. "If your loan has a higher interest rate, that's going to negate some of the interest that you earn on your contributions," he explains. In that case, don't neglect your savings, but you may want to pay down your loans as soon as possible.

But the financial component isn't the only thing you need to consider when determining where to put your extra dollars. There's also an emotional component: how comfortable are you with debt? "I've seen cases where the interest rate is really low, and the person could really be maximizing their retirement contributions, but the person just can't stand having debt," Lewellen recalls. You must balance what's financially sound with what's comfortable for you, but "don't let it become too emotional," he warns.

Refinancing student loans can be a good option depending on your situation, says Bob Peelman, CFP®, director of wealth advisors at OJM Group. Benefits include lower monthly payments, the ease of one monthly payment, and the ability to defer payments if you get into a financial pinch (depending on how your loan is structured).

USE DEBT STRATEGICALLY

When it comes to cash flow, eliminating debt (and the interest that comes with it) is one of the best things you can do to firm up your financial foundation. And while your student loan debt will probably stick around for a while, you should get rid of any bad debt as soon as possible. (Yes, there is such a thing as good debt.) Bad debt drains your income, but good debt can actually help you increase your net worth or income.

Bad Debt:

- **Revolving lines of credit (credit cards)**
- **Personal loans for discretionary purposes**
- **Any debt with a higher-than-market interest rate**

Good Debt:

- **Mortgage**
- **Low interest rate student loans**
- **Low interest loan to invest in something that will grow in value (i.e. buying into a practice)**

Q Do I really need estate planning? Isn't that only for multimillionaires?

A If you are married and have a child/children, you should at least get a basic estate plan in place, recommends Lewellen.

Q Okay, LegalZoom is cheap, right? I could get it done this weekend!

A Yes, there are several websites that allow you to create legal documents on your own, but this isn't really something you should DIY, says Lewellen. "From a cost standpoint, it's worth it to have an attorney do it," he says. "But at the end of the day, something is better than nothing."

Don't Forget Protection

There are two basic types of insurance you need at this point:

- **Disability:** Your greatest asset is your ability to earn a living. Should you become unable to do that, disability insurance will help replace your income and avert financial catastrophe.
- **Term Life Insurance:** This is essential if you have a family that relies on you, and it's an inexpensive way to get the protection you need.

STAGE: MID-CAREER

GOAL: Focus on Wealth Accumulation

In this stage, you've probably reached your peak money-making years as a physician. That makes it a great time to build on the financial foundation you already have, while also focusing on wealth accumulation. To keep your financial foundation solid, you should:

- Continue to fully fund your retirement accounts each year.
- Keep your disability and life insurance policies in force. Don't forget to reevaluate your policies as your income grows. You may find that you need more coverage.

Saving and investing after-tax dollars is a big part of wealth accumulation, and you also want to add in the idea of tax diversification, say Lewellen and Peelman. A great way to visualize how this works is to imagine several "buckets" in which you build your assets; each bucket is taxed a little differently. The intent is to minimize your taxable income. "We stress this with our clients," they say.

GET TO KNOW THE MARKET

An investment (or brokerage) account is "where you're going to build out a financial portfolio with a number of different goals and time horizons," explains Peelman. These accounts don't have the same restrictions as retirement accounts, so you can use them in different ways. Some of the assets in this bucket may be part of an overall retirement plan, but some may be put towards shorter-term goals, like buying a vacation home or a rental property.

CONSIDER A ROTH CONVERSION

Roth IRAs are a very effective strategy to build assets towards retirement, leave money for your heirs, and achieve tax diversification. Plus, although you contribute with after-tax dollars, distributions are tax free and there are no minimum distributions. "Roth IRAs play a very important role, but are often underutilized," laments Lewellen. Why? Many physicians assume Roth IRAs are off limits due to income caps. However, that's a common misconception.

Q My insurance agent keeps trying to sell me on cash value life insurance. Should I bite?

A Cash-value life insurance can be "a hot button issue," says Lewellen. It can play a role in wealth accumulation but is not appropriate for everyone and it has to be structured in the right way. It can be an investment hedge, and the IRS gives very favorable tax treatment to this type of cash accumulation—you can withdraw it tax-free. It is also expensive, Lewellen warns. "If you have an extra \$1,000 a month, put in a brokerage account," Lewellen urges. "If you have an extra \$5,000 a month, then we can revisit this option."

Sometimes referred to as "back door IRAs," a Roth conversion is a fully legal and perfectly acceptable way to take advantage of this resource. Here's how it works: instead of contributing directly to the Roth IRA, you'd make a non-deductible contribution to a traditional IRA. Then, you can convert the traditional IRA to a Roth and can continue to contribute up to \$6,000 per year (\$7,000 if you're over age 50).

INVESTING 101

When deciding where to invest a client's hard-earned dollars, "we're looking to learn as much about them as we possibly can," Peelman says. "Part of that is their comfort level with risk."

Any financial advisor should perform a detailed risk assessment with you (and your spouse or partner, if you have one). This type of assessment is "a starting point of discussion about how your money will be managed," explains Peelman. "It removes some of the subjectivity and emotion from identifying investment opportunities." Those opportunities include:

- **STOCKS:** Also referred to as equities, this type of security provides investors with ownership in a corporation. Investing in stocks comes with a high level of risk, but "the risk can be reduced dramatically by diversifying and owning many stocks over different industries." Choose those that offer the greatest growth over a long period of time, recommends Peelman.
- **BONDS:** This lower-risk security offers a fixed rate of interest for a specified period of time, lending stability to an investment portfolio. Rising interest rates, inflation, and the risk of default by the borrower are some risks associated with bonds.
- **MUTUAL FUNDS:** A very popular type of investment, these are professionally-managed portfolios of securities. The typical mutual fund holds 150-250 securities, according to Peelman. They can be tax inefficient, and management fees will take a chunk of your earnings, he says, but mutual funds are attractive because they offer diversification and they are liquid.
- **ETFs:** Rapidly catching up to mutual funds in terms of popularity for investors, ETFs are securities that track an index (like the S&P 500). They offer a high level of liquidity, lower management fees than mutual funds, and give the holder the opportunity to buy and sell an entire portfolio in one single security.
- **ALTERNATIVE INVESTMENTS:** These investments typically have a lower correlation to the S&P 500 and can drive down the volatility of your portfolio, explains Peelman. Examples include gold, commodities, hedge funds, REIT's, and currencies.

STAGE: LATE CAREER

GOAL: Tie Up Loose Ends

It's almost time to sit back and enjoy the fruits of your labor, but there's still financial work to be done. "This is the stage where we go back and make sure the I's are dotted and the T's are crossed," says Lewellen.

REVISIT ASSET PROTECTION

An important thing to consider is how you have your assets titled—things like your home(s), investment properties, brokerage accounts, etc. Assets held singly by you, in your own name, are totally accessible to creditors, warns Carol Foos, CPA, a partner at OJM Group and presenter at AAO 2018.

If you think simply titling assets in your spouse's name will solve this problem, think again. "I can't tell you how often we talk to clients that think they don't need an asset review because all their assets are in their spouse's name," Foos says. "If something happens to them, it puts all your assets at risk." And no one wants to talk about divorce, but "there is still significant exposure on that."

There are multiple solutions, but setting up an LLC to hold assets is a popular option. "It may not change things from a tax standpoint, but it adds a layer of protection in case you are sued," says Lewellen.

REVISIT ESTATE PLANNING

When it comes to estate planning, "what you should be doing is very dependent upon the state you are located in," says Peelman. Foos agrees. For example "it may not be the best plan to pay off your house if you're in a state that has a [lousy] homestead exemption, because you don't want to have a lot of equity in your home," she told AAO attendees.

At this point you may also want to think about gifting or charitable donations, especially since they are tax deductible. Donor-advised funds can be an attractive option. This type of fund allows you to make a contribution—and get the tax reduction the same year—but you don't have to actually pay the gift out until some point in the future. You can also pay it out over time, in smaller chunks. [ECL](#)

RESOURCES FROM OJM GROUP

Books: *Wealth Management Made Simple* and *For Doctors Only*

For free print copies and e-book downloads, visit ojmbookstore.com and use promo code EYECARE at checkout!

For wealth management podcasts, webinars, videos, and articles, visit ojmgroup.com/education

Like what you've read?

David Mandell, JD, MBA, partner at OJM Group, is conducting a session at the 2019 ASCRS•ASOA Annual Meeting at the San Diego Convention Center!

"PROTECT WHAT YOU MAKE: Best Practices in Practice and Personal Asset Protection for Practices and Physicians"

Date: May 7, 2019

Location: Upper level, Room 23C

Time: 9:15AM – 10:15AM, PST