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WealthHealth

A Monthly Financial Service Specifically for Physicians

Top 5 Financial Questions Physicians Ask

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HOW MUCH DO I NEED TO SAVE TO MAINTAIN MY LIFESTYLE AFTER I STOP PRACTICING MEDICINE?

It depends. Everyone has a different answer and it really depends on you, your family, your objectives and your lifestyle plans. You may want to maintain your current lifestyle, scale it back or enhance it. Another significant factor is where you live.

To help clients determine a target amount, some advisors use the 4% rule (or safe withdrawal rate) Here's how it works.

- To calculate when and how much money you need to retire, determine your annual expenses and then multiply by the number of retirement years. For example: $80,000 expenses per year x 25 years = $2 million.
- The Trinity Study explains the 4% rule. This study looked at how much money you'd need to retire for every year between 1926 and 2009. If you invested 50% of your money in stocks and 50% in bonds, withdrawing 4% of your total net worth every year for 25 years works out 100% of the time. Taking out 4% for 30 years works out 96% of the time (despite the many turbulent ups and downs of recent history). Only if you retired in a very unlucky year and didn't make any money at all during retirement (including pensions), the 4% rule didn't work. So, while it's not 100% foolproof, the odds are very, very good.
- Why is 4% the safe number? For over 100 years (since 1900), the average rate of return per year on investments has been 7%. Since 1913, the average inflation rate has been about 3%. Combine these two factors and your net worth will increase on average 4% each year. If you spend 4% of your net worth each year, you'll end the year with what you started with.

History shows that investing is more about being patient,investing early and reinvesting your dividends, than about timing the market.

HOW AM I GOING TO DO IT?

The next big consideration is, how you'll grow your savings to the level you'll need for you. Again, it depends. The answer includes:

- What you have saved now, and how to grow it (factoring in inflation)
- Disciplined savings each year – how much, and growing it
- Lifestyle choices now and delayed gratification
- Your investment goals and

keeping them current
- Strategic asset allocation (equites, fixed income, cash, real estate, commodities) for portfolio balance and stability

There are many models to determine how long it would take you to reach your target number. There are several variables, including interest rates, investment vehicles and numbers of years to retirement. Your advisor will help you strategize how you hold your net worth as it grows – what types of savings or investment vehicles might be right for you, and whether they should be short or long-term ones. At the right time, they should also help you develop a plan to convert your savings into income, in a tax efficient way.

WHAT HAPPENS IF I GET SICK OR HURT AND CAN'T PRACTICE?

Protect your most valuable asset – YOU, and your ability earn an income. You can do this by using disability insurance and critical illness insurance.

For disability insurance, you should consider your annual income and then protect this asset to the maximum possible, especially if you're in the early or middle stage of your career, and you're healthy. Be sure to increase your coverage as your income increases. Your advisor can help you determine what kind of disability insurance is best for you and which policy riders to consider. A future earnings protection rider is often attractive for our physician clients. It guarantees future insurability and can simplify the process for obtaining more insurance coverage as your income grows over your career.

What happens if you have a life-threatening illness and survive, but can't practice for a while? Critical illness insurance should be part of your plan too. It provides a lump sum payment if you survive a heart attack, stroke, cancer or a number of other critical illnesses or conditions for at least 30 days. You can use the money any way you want or need – to pay bills or cover other financial obligations, to cover equipment or treatment, house modifications, etc.

WHAT IF I DIE TOO SOON?

We all think we'll die too soon, of course. If we have children, family obligations, or financial obligations we worry about for leaving others when we die, it's prudent to plan for how to manage risks and protect your security and your family's security if you die prematurely. As a general rule for physicians, we recommend a life insurance plan that would provide your beneficiaries with at least $2 million of immediate death benefit.

It's impossible to put a value on human life, but there are ways to determine what the right amount is for you. You can start by assessing the financial loss your family would incur if you were to die today. This exercise can help provide a general estimate of your net contribution to your family at this point in time and then you determine how much life insurance you need. Factors include your:

- Annual income
- Years to retirement
- Tax rate
- Life insurance in force
- Savings
- Other assets

Your advisor can help you structure the right combination of life insurance, disability insurance and critical illness insurance, depending on your own financial and health situation. The combination likely includes some kind of return-of-premium disability and/critical illness insurance and permanent life insurance that will give you access to cash value of a policy if you ever need it during your lifetime.

And, as you're sure to advise your patients, your own focus and commitment to a healthy physical and mental lifestyle is also part of your wellness insurance plan.

WHAT CAN I DO TO BE TAX EFFICIENT?

As we talked about in a previous issue, understanding and managing your cash flow as an incorporated professional and tax minimization requires a coordinated, integrated effort with your wealth manager and your accountant. The optimal corporate structure for your business, plus compensation, determines the degree you can minimize the tax you pay.

Working together, your wealth manager and your accountant will help you answer these questions and more:

- What's the best way for me to pay off my loans?
- How do I use my medical professional corporation (MPC) to build my wealth?
- Should I contribute to an RRSP and/or TFSA, when and how much?
- Should I contribute to an RESP for my children, when and how much?
- Should I use corporate investments, when and how much?

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