

FINANCIAL MISTAKES PHYSICIANS MAKE

AND HOW TO HELP AVOID THEM



INTRODUCTION

On average, physicians spend as many as 14 years in college and postgraduate training, including earning bachelor's and medical degrees and serving internships, residencies, and even a fellowship. While medical school prepares young women and men to care for their patients, it doesn't typically prepare them to run their practices or equip them with the tools they need for a lifetime of managing their families' financial security.¹

Physicians have unique needs as investors and face special challenges because of higher liability risks, complex financial situations, heavy student-loan debt, and above-average income. In short, physicians are not like other investors and may want to consider working with financial professionals who understand the issues they face. A recent survey shows two characteristics of physicians and professional financial planning:

Using a professional advisor increases as physicians age: only 45% of physicians in their 30s use a professional advisor, 53% in their 40s, 60% in their 50s, and 67% in their 60s.²

About 51% of physicians who are "ahead of schedule" in their financial planning say they feel very knowledgeable about their personal financial matters, such as retirement planning and investing. And 67% of those who are ahead and feel very knowledgeable use a financial planner to assist them.³

SPECIAL FINANCIAL CHALLENGES FACING PHYSICIANS

A late start. Physicians typically get a late start on serious, proactive financial planning. That's because they finish their educations much later than those who pursuing other types of careers. For example, the average physician finishes medical school at age 27 and may not finish residency until age 30.⁴

Heavy student-loan debt. In 2016, 76% of surveyed medical-school graduates had a median debt of more than \$190,000, up from a median debt of \$180,000 in 2014.^{5,6}

Increased professional liability risks. In a 2015 survey about malpractice, Medscape reported that 64% of the physicians surveyed had experienced at least one malpractice suit by age 54. The number rose to about 80% after age 60. Although those surveyed were in specialties that had a high likelihood of being

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sued, an American Medical Association (AMA) analysis showed similar findings for all older physicians, with 60% of physicians older than 55 experiencing a lawsuit.⁷

Increased financial risk from disability. Do not underestimate the value of sufficient disability insurance. It's one of the most important things physicians can do to protect their income in the future.⁸ Even so, physicians often find they do not have enough disability protection.⁹

Complex personal and professional finances. Increased regulatory burdens, liability issues, and an ever-expanding tax code mean that many physicians have complex financial circumstances, making it more challenging to develop integrated long-term financial strategies. The results of poor strategizing can be amplified for physician investors because of their higher incomes and greater debt burdens. When the complexities of your practice's finances are involved, financial mismanagement can risk professional relationships with hospitals, universities, and other professionals.

Physicians also are often under extreme time constraints and need reliable answers and quality recommendations from those with experience with physicians' unique needs. They seldom have time to do their own strategizing and may struggle to find the right representative or professional for their needs. In our professional experience, many physicians make the same mistakes, so we have created this special report to help you identify common pitfalls and avoid them.

IGNORING THE RISKS OF LIABILITY AND ASSET PROTECTION

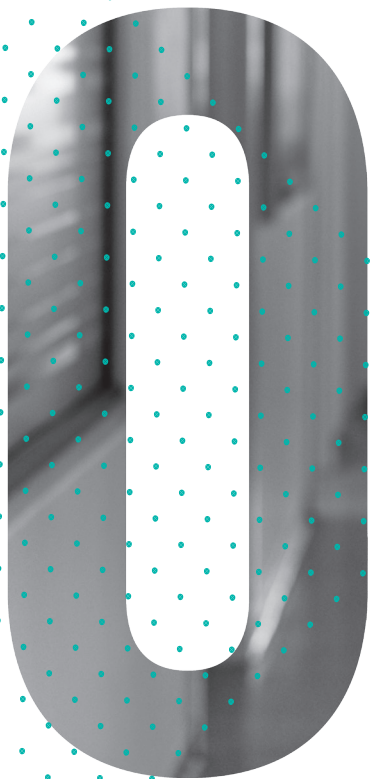
Medical liability is a pervasive concern for physicians not only because of the potential effects of a settlement but also because of the costs associated with fighting a prolonged and costly legal battle. While laws capping tort damages have been effective in some states, physicians often are targeted in medical liability suits, especially in states where hospitals are protected under charitable-immunity provisions. There are many sources of nonmedical liability, such as liability for the actions of employees or employee lawsuits that can put you and your family at risk.¹⁰

While medical liability insurance is designed to protect personal and business assets from malpractice claims, there are limits to your coverage, and many policies explicitly exclude coverage for suits arising from activities that are not directly related to the patient-physician relationship. Jury awards in liability cases often are unpredictable and may exceed your coverage limits. Unfortunately, if your liability coverage is exceeded, your personal assets can be put at risk if they are not sufficiently protected. Even when physicians try to shield their assets by putting them in the name of a child or spouse—or by hiding accounts—professional investigators are skilled at discovering sensitive financial information that can be used at trial.

You've worked hard for what you own, and you want to keep it safe. While no asset-protection strategy can be right for everyone, there are many tools at your disposal to help protect you and your family from costly litigation. Some of the ways we can help you protect your assets include the following: umbrella insurance policies to expand your liability coverage, trusts and other ownership strategies, advanced risk-management techniques, and investment diversification.*

Asset protection and protecting yourself from liability are two very big pieces of the wealth-creation puzzle for physicians. The better you can protect your assets from creditors, litigators, and malpractice claims, the more assets you will have to build a prosperous future for you and for your family.

*Diversification cannot guarantee a profit or protect against loss in a declining market.



TAKING QUESTIONABLE FINANCIAL ADVICE

Hubris is one of the most dangerous investment pitfalls, and many investors make the mistake of thinking that there is some secret formula to beating the market. While overconfidence is certainly not a trait unique to physicians, most are well above average in terms of intelligence and wealth and may fall prey to questionable ideas when they try to outsmart the market.

As wealthy investors, many physicians fall under the legal definition of “accredited investors.” The U.S. Securities and Exchange Commission (SEC) considers these sophisticated investors to have adequate investing experience and wealth such that they will not need to liquidate their investments for cash needs and can withstand a total loss of their investment principals. According to the SEC, an individual accredited investor is one with \$1 million in personal net worth (excluding the primary residence) or income exceeding \$200,000 (or \$300,000 jointly).¹¹

While meeting the requirements for accredited investors can increase the range of available investment opportunities, it also means that physicians can find themselves the targets of questionable investment schemes and unqualified financial advice. Being classified as an accredited investor may mean that many of the typical investor protections no longer apply. Beware of any investment that offers guaranteed returns or promises to beat benchmark returns with a “secret” or “proven” investing formula.

The reality is that physicians don’t have to hit home runs to build wealth and live the lifestyles they have worked and sacrificed so much for. As with many things in life, slow and steady may often win the race. Making savvy financial choices and sensible wealth-management decisions is more prudent for your long-term financial health than dodgy investment schemes based on “proven financial formulas.”



FAILING TO CREATE A COMPREHENSIVE FINANCIAL STRATEGY

One of the biggest mistakes many physicians make is not developing long-term financial strategies and controlling their spending as their income increases. Physicians spend years sacrificing and understandably want to enjoy the fruits of their successes. However, not planning for important financial expenses means that it's easy to lose track of growing income.

In our experience, financial strategy can help create clarity, and a regularly reviewed budget can help keep you on the path toward your financial goals. A written budget and financial strategy can help you articulate your family's goals, manage your income and cash flow, and monitor your progress toward financial goals.

FAILING TO PROTECT YOUR FAMILY WITH AMPLE LIFE AND DISABILITY INSURANCE

The purpose of life insurance and long-term disability insurance is to protect your family from unpredictable events. While most physicians take the precaution of purchasing life insurance, many unwittingly leave themselves and their families open to the risk of a disabling illness or injuries. A Council for Disability Awareness report shows that a typical female physician in her mid-30s has a 24% chance of becoming disabled for at least 3 months during her medical career. A typical male physician in his mid-30s has a slightly lower chance—21%—of becoming disabled for the same amount of time.¹²

You cannot underestimate the effects a disabling illness or injury can have on your income and wealth. In some cases, Worker's Comp, Social Security disability income, and savings are not enough to cover the gap in income, making adequate disability insurance an important part of a financial plan.

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FAILING TO ASK FOR HELP

Physicians can be reluctant to ask for help when making important financial decisions. Effectively managing potentially complex finances takes skill. Even so, an AMA booklet quotes that only 25% of physicians use a professional advisor to assist them.¹³

During the bull-market years of the dot-com era, it was easy for stockholders to have confidence in their investing abilities when a few lucky stock picks quadrupled overnight. However, many of those same investors were burned in the bear market that followed because they didn't have the experience or skills to manage their wealth in a declining market.

Long-term investing entails having the skill to achieve returns in bull markets and the discipline to keep what you earn when markets decline. This is when it pays to have a professional financial manager. One of the greatest benefits of professional financial management comes when markets are declining. We educate our clients on the opportunities that market turbulence sends our way and keep them focused on their long-term goals, not on short-term gyrations. As professional financial representatives, it's our job to stay on top of ever-shifting economic, financial, and legal issues so our clients don't have to.

Navigating the turbulent investing world of today requires wise management skills, and commitment to a long-term, active investing strategy. For physicians, investing is just one part of their overall financial strategies. Getting good financial guidance may spare you the angst of errors or missed opportunities and may save you money in the long term.

It's common for physicians to consult with financial representatives, accountants, insurance agents, tax-planning professionals, attorneys, and practice-management specialists. It's critical to integrate your financial team into your overall goals so that each professional on your team is aware of what the others are doing. If each professional isn't communicating well with each other or is unaware of your total financial picture, you may get fragmented, inefficient advice that may negate certain strategies and hamper your wealth-creation efforts.

To be most effective, your advisors must be integrated, communicate well with each other, and work toward common, clearly defined objectives. We work with a network of experienced professionals with a wide range of skills and qualifications.

HOW A FINANCIAL REPRESENTATIVE CAN HELP

Physicians may face greater challenges than many investors, and they are now operating in an environment of great industry and financial changes. Keeping up with the ever-changing regulations affecting your industry and practice may take up a significant amount of time, leaving you little time to assess changing tax laws and keep up with rapidly shifting financial markets.

Particularly in times of economic uncertainty and changing regulations, we believe it is important to seek the guidance of a financial professional. We want to emphasize that no approach is right for every physician and that successful financial outcomes need personalized guidance based on a clear understanding of you, your practice, your goals, your values, and many other aspects of your personal circumstances.

We hope you have found this report useful and informative. Physicians who recognize and avoid these common mistakes give themselves the potential to grow their wealth and work toward financial security for the future. We also want to offer ourselves as a resource to you and your family. We are happy to answer questions about your current financial situation and future goals.

If you have any questions about the information presented in this report, or if you'd like to discuss your specific needs, please contact us. We would be delighted to speak with you.

Sincerely,

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Kent Patrick, CRPC®
Vice President, Wealth Advisor



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