5 Financial Mistakes Physicians Make

And How to Help Avoid Them

As investors, physicians have unique needs and face particular challenges. This special report will discuss some common mistakes that impact growing your wealth, protecting your assets, and thriving financially in a shifting landscape of industry changes.

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As a physician you probably received one of the best educations in the world; however, many physicians may be at a disadvantage when it comes to personal financial management because their training doesn't equip them with the tools required for a lifetime of managing their family's financial well being.

Physicians have unique needs as investors and face special challenges because of higher liability risks, complex financial situations, heavy student loan debt, as well as above-average income. In short, physicians are not like other investors and should consider working with financial professionals who understand the issues they face.

Special Financial Challenges Facing Physicians

- **A late start:** The average physician finishes medical school at age 27, and may not finish residency until age 30.[1]
- **Heavy student loan debt:** 86% of surveyed physicians had medical school debt; 63% owed more than $150,000.[2]
- **Increased professional liability risks:** A recent NEJM study found that 75% of physicians in low-risk specialties had faced a malpractice claim by age 65.[3]
- **Increased financial risk from disability:** Surveys show that many doctors are underinsured or pay too much for the coverage they have.[4]
- **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 are also frequently under extreme time constraints and need reliable answers, quality recommendations, and experience with their unique needs. They often lack the 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. We have created this special report to help you identify some common pitfalls and avoid them.

Mistake No. 1: Ignoring the Risks of Liability & Asset Protection

Medical liability is an omnipresent concern for physicians not only because of the potential effects of a settlement, but also the costs associated with fighting a prolonged legal battle. While laws capping tort damages have been effective in some states, physicians are frequently targeted in medical liability suits, especially in states where hospitals are protected under charitable immunity provisions. There are also many sources of non-medical liability, such as liability for the actions of employees or employee lawsuits that can put you and your family at risk.[5]

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 are often unpredictable and may even exceed your coverage limits making your assets and future income vulnerable to collection actions.

Unfortunately, if your liability coverage is exceeded, your personal assets can be put at risk if they are not adequately protected. Even when physicians attempt to shield their assets by putting them in the name of a child or spouse or 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 yourself and your family from costly litigation. Some of the ways that we can help you protect your assets include: umbrella insurance policies to expand your liability coverage, trusts and other ownership strategies, advanced risk management techniques, and investment diversification.*

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

Asset protection and protecting yourself from liability are two very big pieces of the wealth creation puzzle for physicians. The better you are able to 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.

Mistake No. 2: 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 in an attempt to outsmart the market.

As wealthy investors, many physicians fall under the legal definition of an "accredited investor." The SEC deems these sophisticated investors to have sufficient 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 principal. 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 ($300,000 jointly).[6]

While meeting the requirements for an accredited investor 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 normal 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 lifestyle they have worked and sacrificed so much for. As with many things in life, slow and steady may win the race. Making savvy financial choices and prudent wealth management decisions is more prudent for your long-term financial health than dodgy investment schemes based on "proven financial formulas."

Mistake No. 3: Failing to Create a Comprehensive Financial Strategy

Many physicians fail to develop a long-term financial strategy and control their spending as their income increases. Physicians spend years sacrificing and understandably want to enjoy the fruits of their success. Failing to plan important financial expenses, however, means that it's easy to lose track of growing income.

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

Mistake No. 4: Failing to Protect Your Family With Enough 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 coverage, many unwittingly leave themselves and their families open to the risk of an illness or disabling injury. Research shows that many physicians are underinsured at the beginning of their career (when the greater part of their earning potential is ahead of them) and may be paying too much for insurance as they near retirement.[7]

The effects a disabling illness or injury can have on your income and wealth should not be underestimated. 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 a financial necessity.

Mistake No. 5: Failing to Consult Professionals

Physicians can be reluctant to ask for help when making important financial decisions. It's important to realize that investing for your long-term financial goals is not a game for amateurs, and effectively managing potentially complex finances takes professional skill. In a famous study conducted by researchers at Yale and Princeton, psychologists gave students questionnaires asking how they compare with their classmates in a variety of skills and tasks. For example, one question asked: "Are you a more skillful athlete than your average classmate?" The overwhelming majority of students responded that they are above-average athletes, drivers, dancers, students, and so on.[8]

Obviously not everyone can be above average at a given task, but it's common for positive self-perception to cloud judgment. That same issue of overconfidence can exist among investors. During the bull market years of the dot-com era, it was easy for investors 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 requires 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 money 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 that our clients don't have to.

Navigating the turbulent investing world of today requires professional training, prudent management, and commitment to a long-term, active investing strategy. For physicians, investing is just one part of their overall financial strategy and getting good

financial guidance can spare you the angst of errors or missed opportunities and may save you money in the long-term.

It's not uncommon for a physician to have a financial representative, an accountant, an insurance agent, a tax planning professional, an attorney, and practice management specialists. It's critical to integrate your financial team into your overall goals so that each professional is tuned into what the others are doing. If each professional isn't communicating well with the others 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.

In order to be most effective, your advisors must be integrated, communicate well with each other, and all work towards common, clearly defined objectives. We work with a network of experienced professionals with a wide range of skills and qualifications. We work well with other professionals and understand.

How a Financial Representative Can Help

Physicians may face greater challenges than most investors and they are currently operating in an environment of great industry and financial change. 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 monitor changing tax laws and keep up with rapidly-shifting financial markets.

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

We hope that 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 and we offer free consultations at any time.

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

5 Ways the Affordable Care Act May Affect Your Income

The ACA means greater insurance coverage for some patients and coverage that will cover an increased array of services, including maternity care, mental health services, medications, rehabilitation services, and chronic disease management.

Millions of newly insured Americans will be looking for primary care physicians and specialists.

Medicare is paying primary care physicians a 10% bonus for primary care services through 2015.

The ACA may encourage the replacement of straight fee-for-service payments with outcome-based methodologies like bundled payments, collaborative accountable care, and shared savings in ACOs (Accountable Care Organizations).

The Centers for Medicare & Medicaid Services will reduce payments to practices that do not comply with initiatives like e-prescribing levels and physician quality measures.

Source: Medscape

Footnotes, disclosures and sources:

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