# 4 | Phases of Physician Finances

From residents fresh out of medical school to established physicians nearing retirement, our practice specializes in meeting the needs of medical professionals throughout each unique life stage. The four main financial planning phases (protection, accumulation, distribution, and legacy) are outlined below.

## Protection Phase

**(Average ages 27-34)**

A common misconception in the planning phase is “I don’t have any money to need financial planning.” This statement couldn’t be further from the truth, and I would argue that residents and fellows cannot afford not to do financial planning. Does financial planning mean paying an exorbitant fee and investing large sums of money? Not at all. It can be as simple as looking at your current situation in regards to monthly budgeting and student loan debt to determine a plan of action upon completion of residency. The earlier you start, the more time you give yourself and your plan time to develop and thrive. Your career, up to this point, has been about delayed gratification, and it is easy to get sidetracked and give in to an increased standard of living. Focus on these four areas:

1. Establish an emergency fund of cash savings of 3-6 months of living expenses. We prefer for our medical professionals to have these funds in their savings account and use their checking account to pay their revolving monthly bills.
2. Review and implement basic risk management principles to ensure proper coverage is in place with a licensed professional. You can achieve this by purchasing insurances such as term life, disability, home and auto. Life and disability insurances is extremely important in this phase because it will be cheaper than if you wait until a later phase, in addition to locking in your ability to be insurable in the future. We recommend mutual insurance companies due to their financial strength and company structure.
3. Manage your finances on a monthly basis to ensure there is not overspending or monthly expenses that are putting you in the red. Purchasing a home as soon as possible can be a smart move, but be careful not to deplete your emergency fund, especially if your monthly mortgage is more than 28% of your before-tax monthly income.
4. Complete documents for a will and power of attorney. This is a necessity for everyone, but especially if you have children.

## Accumulation Phase

**(Average ages 35-54)**

This phase is often the most difficult, yet most important phase for medical professionals to execute properly. During these 20-25 years, our wealth is created and our true financial habits are formed. It allows us to establish the precedent for how we will treat our money before we actually have it. As the saying goes "people don't plan to fail, they simply fail to plan." Start by determining your family's financial goals to guide your decision-making and product selection. Once your goals are determined, here are some questions:

1. How much yearly income do I desire upon retirement?
2. How much money do I need to accumulate to generate my desired retirement income?
3. How much do I need to save monthly to reach my goals?
4. How will my assets be taxed at retirement?
5. Are my investments properly allocated for my individual risk tolerance?
6. Am I chasing returns to achieve my financial goals and taking on too much risk?

My practice uses a worksheet called the financial EKG to determine your desired age for retirement, your desired monthly income at retirement, and your goal for saving each month to achieve your desired retirement income. Embrace the philosophy of saving first and spending last.

# Distribution Phase

**(Average ages 55-65)**

Each of the previous lifestyle phases builds upon the other. The distribution phase should begin a few years before we actually hit retirement. Our focus should be on determining if enough money has been saved to maintain your lifestyle through retirement, and methods of reducing recurring monthly expenses, such as mortgages and other loans. This phase has historically consisted of the "three-legged stool": social security, pensions, and personal retirement savings. Today, people are relying on their personal savings more than ever since social security and pensions are ever decreasing. A safe income withdrawal rate from your portfolio used to be 5-6% annually, but experts now suggest 3-4% to ensure you do not run out of money in retirement.

Another major consideration that could be addressed as early as the accumulation phase is managing costs for extended periods of care. Please see this website for further information: http://longtermcare.gov/cost-of-care-results/?state=US-TN

# Legacy Phase

**(Average age 65+)**

Well…you have made it, or so they tell you. If you've done well in the accumulation phase, you should be able to spend time with family, volunteer, travel, and check off your bucket list items. By this phase, we have decided when we are going to elect to take social security and determined if we will supplement your social security or pension with a lifetime income product. For some of our clients, an interesting mindset shift occurs from the accumulation of assets to a philosophy of charitable giving and inheritance. Questions start to arise such as:

- What will I leave behind to my heirs?
- How much should I leave?
- How much is too much?
- Do my assets need to be put in trust on their behalf?
- What is the best way to give funds to a religious organization, charity, or non-profit?

While estate planning documents, such as wills, power of attorney, and trusts are important early in life, it is imperative to re-evaluate your wishes, beneficiaries, and structure of your estate plan.

# In closing

Our physician clients are in different phases of their professional, personal and financial lives. Most of our clients have attempted some type of financial planning, but seek help from us when they have gone as far as they can with their limited financial knowledge and are looking for a partner to guide them the rest of the way. You might never know the value of working with a financial planner until it is too late, and we do not have the time needed to achieve all of your goals. We believe money is a powerful tool that allows us to accomplish amazing things. Please do not hesitate to reach out if you or someone you know has questions about their planning or investment needs.

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