Will You Have Enough? Attaining Financial Security Requires Careful Planning

Downturns in physician practice economics has taken long-standing personal finance calculations and turned them on their head. As a result, many physicians face an endless set of questions concerning their personal finances. Will there be enough money to cover the children's education? Can we afford the new house we wanted? When should I buy a new car, and how much should I spend? How long will I have to work at this capacity? What type of lifestyle can I lead now and after retirement? Physicians face a unique set of financial challenges due to the twin pressures of declining reimbursements and increasing expenses.

With this in mind, when should a physician make a personal financial assessment? Assessment should be an ongoing process, but there are several key milestones in a physician's career when stopping to do a financial assessment is paramount:

- When you incur debt as a medical student.
- When your residency ends.
- If you change practice type and/or location.
- If you switch to part-time employment or take family leave.
- As you are planning for retirement, especially as the time for retirement approaches.

**SET PRIORITIES**

Finding the right answers has to start with an introspective process as well as the establishment of priorities. What is important to you? What falls into the must-have category, and what are the nice-to-haves? This process applies to current expenses as well as future big-ticket items. The things that are important to you could include freedom, less stress, more time with family, or making the world a better place.

Taking a closer look at current spending may provide some interesting findings as well as some ways to save money. Short-term planning requires a careful assessment of today's income and spending. Long-term planning requires careful assumptions, accounting for multiple variables, and contingency preparation.

Once you've taken the time to identify what is important, you then are ready to clarify your goals and benchmark where you are today.

**TAKE "FINANCIAL VITALS"**

Similar to the way a physician take a patient's vital signs before providing a diagnosis and prognosis, you have to take your "financial vitals" before you can create a plan to achieve your goals. A patient's vitals usually include a complete blood count (CBC). In the case of your financial vital signs, CBC stands for clarify your goals, benchmark your current situation, and create a written plan of action.

Let's examine these in more detail and see why they are important in getting you to where you want to be.

- **Clarify your goals.** Typical financial goals might include saving or paying for college, graduate school, weddings, and retirement. The critical aspect of
determining the goals, however, is assigning not only a dollar amount but also a specific target date to each one. Whether the goal is to be achieved in 1 year or 40 years, a specific date must be set (for instance, December 20, 2020).

Said another way, a goal without a date is just a dream. Once a specific date has been assigned to each goal, you then can work backward to determine how much needs to be saved. Of course, the target date can be adjusted as life progresses, but you must start with an initial date to target.

- **Benchmark your current situation.** Where are you relative to your goals? Take stock of all your investments, cash, and debt. These investments will include your bank accounts, brokerage accounts, retirement accounts (IRAs, 401[k]s, etc.), company pensions, and more. You also will want to consider Social Security benefits. Of course, you want to capture all of your assets so that you have a complete picture. It is important to know where you are today so that your plan is starting from the proper place.

You also should take stock of your risk-management policies, which could include policies for disability, life, long-term care, and health insurance, among other policies. How much does your current employer provide? If you were to leave your current employer, what would it cost to replace your benefits?

- **Create a written plan of action.** This step is where it all comes together. You have to take the data you collected about your goals and current situation and create a plan of action. A key decision here includes judging how comfortable you are with risk. One of the most important decisions you’ll make is how much to invest in stocks, bonds, cash, and other asset classes. The more you have in stocks, the greater your potential for growth, but you also will have to deal with greater volatility in your portfolio.

The last decision will be what specific investments to consider. You could include stocks, mutual funds, index funds, exchange traded funds, municipal or taxable bonds, and a wide range of other instruments. Each investment brings its own benefits and risks. The key is understanding what you want to achieve and then creating a strategy that will get you there.

**FOLLOW YOUR PLAN**

Depending on your knowledge, time, and comfort level, you may wish to do this planning on your own or obtain some guidance. An investment plan can be a powerful tool to help you organize all of the items previously described.

But remember: you can complete your CBC, but it won’t matter unless you follow it—just as thinking about exercise does not make you physically fit. You have to implement the plan to get the results you desire.

Ultimately, finances are nothing more than a tool to help you achieve what is really important to you. With the right planning and implementation, you can get a very clear picture of what needs to be done so you can live the life you want.
Reed Tinsley, CPA is a Houston-based CPA, Certified Valuation Analyst, and Certified Healthcare Business Consultant. He works closely with physicians, medical groups, and other healthcare entities with managed care contracting issues, operational and financial management, strategic planning, and growth strategies. His entire practice is concentrated in the health care industry. Please visit www.rtacpa.com