Planning For A Secure Financial Future

Financial Focus Areas:

Protection
Wealth Accumulation
Estate Planning
Retirement Planning
Business Planning

Healthcare has seen many changes over the last several years and continues to evolve. New legislation, loss of autonomy, declining income and increased liability are all symptoms of ongoing change in the healthcare community. And while you may have less control over some aspects, one area that you can take control of is planning for a more secure financial future.

There's no question that the earlier you start planning and saving, the better prepared you will be to reach your goals. But, as a medical professional, you have more challenges and complexities to overcome than the average person. This includes a shorter overall earning period than most people, which results from the length of time spent on education and training. And, those in the healthcare field tend to begin their careers with much greater debt coupled with an initial lower starting salary. This often leads to a later start on saving for retirement and consequently missing out on the benefits of compound interest.

Just as starting early is critical, so is the need to work with a financial professional. Look to a financial professional with experience in developing strategies customized to the needs of those in the healthcare field. This can help you better navigate through the choices and challenges of an increasingly complex financial environment.

An experienced financial professional can help you:

- Identify your current situation;
- Determine your financial objectives;
- Understand the options available to you; and
- Develop and implement a plan that specifically addresses your unique needs.

The average education debt for recent medical student graduates is $180,000[1].

1 Association of American Medical Colleges, Physician Education Debt and the Cost to Attend Medical School, 2014.

Protection

Your income is often your most valuable asset. Protect yourself and those depending on you.

You can't predict what the future holds, but having life, disability and long-term care insurance in place can protect you from whatever may happen in life. You may have some coverage through work, but often it isn't enough. Overall, 30% of all households have no life insurance at all.[2]

Life Insurance helps create a complete financial plan by strengthening the other components. Life insurance offers critical death benefit protection to help guarantee a safety net to protect your family, business, and wealth. Permanent life insurance also builds cash value that grows on a tax-deferred basis and in most cases can be withdrawn income-tax-free. Many people don't realize that they could take a loan from the cash value to help meet a variety of lifetime goals, such as building a business, providing college funding, supplementing retirement income or even as an emergency fund.*

Disability Insurance replaces lost wages should an accident, sickness or injury prevent you from working. As a medical professional, disability insurance is a key component of your financial plan as your income is typically your most important asset. According to the U.S. Census Bureau, nearly one in five Americans are classified as disabled.[3] And, even if your practice or hospital provides group disability, it's important to be aware of the specifics as the benefits may be limited and the policy most likely ends if you leave that employer.

Long-Term Care Insurance helps offset the cost of a nursing home or in-home assistance if you become unable to care for yourself. Long-term care insurance can be a smart choice since two-thirds of Americans over age 65 need these services at some point[4]. And, when you consider that 21% of people who enter nursing homes need care for 5 years or more, at an average cost of $80,000 per year, this can financially devastate most families[5].

Emergency Savings plays a role in your protection plan. Many experts suggest setting aside at least six months of living expenses in case of an emergency. This amount depends on whether you are married, have children, carry outstanding debt, and the amount of your insurance coverage. An emergency fund helps you tackle unexpected financial needs without having to take on additional debt.

*All guarantees are based upon the claims-paying ability of the issuer. Accessing cash values may result in surrender fees or charges, may require additional premium payments and can reduce the death benefit and policy values. Loans are income-tax-free as long as policy is not a modified endowment contract. Policy must not be surrendered, lapsed, or otherwise terminated during the lifetime of the insured.

2 www.LIMRA.com, Facts About Life, 2013
3 U.S. Department of Commerce Economics and Statistics Administration, U.S. Census Bureau, 2010
4 U.S. Department of Health & Human Services, National Guideline Clearinghouse Long-Term Care Information, 2012
5 National Underwriter Company, Field Guide, 2011

To meet your goals, start early and save often.

That's great advice, but as a medical professional with a large amount of debt, the immediate focus is often to repay outstanding loans rather than save for the future. That's why it's important to develop a financial plan that consists of smart budgeting to make the most of your income, along with disciplined savings to start building wealth.

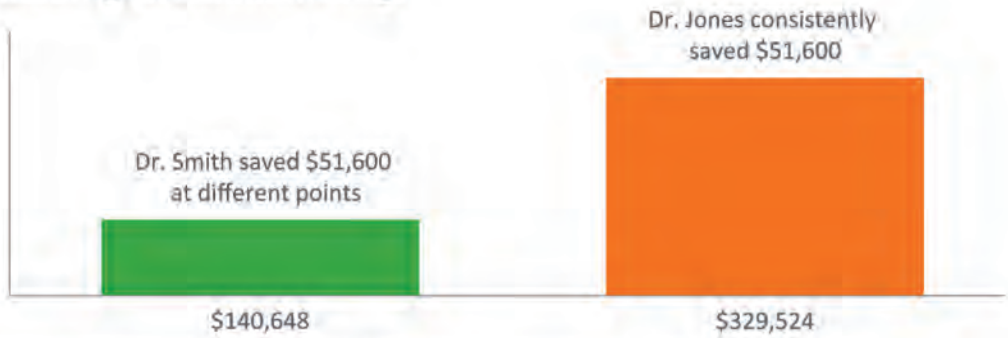
Value of Consistent Savings

Although you may think you have plenty of time to save, it's important to start regularly saving as soon as possible. Regardless of your outstanding loans, saving even a small amount every month will make a big difference later, as interest grows over time. Consider the example of two Pediatricians.

Dr. Smith began investing $100 a month at age 33. He invested for 7 years, then stopped for 7 years while building his practice. He resumed contributions at $200 per month for 18 years, making a total contribution of $51,600. By age 65, Dr. Smith's account value is **$140,648.**

Dr. Jones also began investing $100 per month at age 33 but continued to contribute for 32 years without interruption. Her total contributions also equaled $51,600. But her total account value at age 65 is **$329,524.**

The Advantage of Consistent Savings



Assumes a 7% annual rate of return compounded monthly. This information is for hypothetical purposes only.

In this example, regular investing helped Dr. Jones accumulate $188,876 more. Imagine how much more you'll be able to save if you start early and consistently save.

The Benefit of Asset Allocation

Diversifying your investments can help protect you against the unexpected, while also enabling you to achieve long-term objectives. Asset allocation effectively manages risk by spreading your assets across several different types of accounts.

True diversification is not just having different investments, but rather understanding the implications of each option in regard to several key factors, including tax treatment, access to cash, and overall flexibility.

As you go through life, your ability to save money will fluctuate according to your circumstances and should be factored into your financial plan. Your financial professional can work with you to develop and implement a long-term strategy to meet your specific goals.

Diversification and asset allocation do not guarantee a profit, nor do they eliminate the risk of loss of principal.

Estate planning is not only for the very wealthy.

Estate planning helps ensure your assets are used during your lifetime and transferred following your death as you would like. Planning can also minimize the impact of income taxes, wealth transfer taxes, and accomplish non-tax planning objectives. Estate planning is also important for medical professionals who have individual practices or are part of a group practice and have a significant amount of business assets.

You may assume you're adequately protecting what's of value to you. Or you may be intending to leave the majority of your money to others, which doesn't necessarily guarantee a large inheritance for your heirs. Have you considered and planned for:

- Who will receive your estate? What your estate is currently worth?
- Do you know what your business interest is worth – has a recent valuation been done?
- Do you have a Buy-Sell agreement for your business interests, and is it funded?
- What are the tax implications for your assets, investments and business interests?
- Will you owe federal or state death taxes, and if so, how much might they be?
- Where will the money come from to pay taxes and other settlement costs?
- Will your heirs have to liquidate your estate to pay the taxes, etc.?

Creating a financial plan that addresses both estate planning and retirement needs can help ensure that you don't outlive assets and enjoy retirement, while still having enough left to pass on to family and charitable causes.

Common Estate Planning Tools

- **Wills:** A legal declaration of how you want your assets distributed when you die.
- **Trusts:** Transfers property to your beneficiaries with tax and non-taxable advantages.
- **Charitable Giving:** Tax-efficiently distributes assets to select organizations.
- **Life Insurance:** Helps your family maintain their lifestyle, pay estate taxes and settlement costs, as well as equalize inheritances.
- **Buy-Sell Agreement:** Helps accomplish your succession plan for business owners.

With expertise and guidance, you can address estate taxes and help maximize the assets going to your beneficiaries.

Retirement may be far off, but it's important to prepare now.

It's estimated that medical professionals spend approximately 40,000 hours on education and training in order to become a physician.[6] This shorter employment timeframe along with a large debt obligation often puts you at a disadvantage with your retirement plan. Especially when coupled with the many other challenges in saving for retirement, including:

- **Relying on Social Security.** Social Security benefits typically replace only 10% to 20% of the salaries of highly compensated medical professionals.[7]
- **Decline of pensions.** Pensions make up only 19% of all household retirement income sources and continue to decline.[8]
- **Increasing healthcare costs.** It's estimated that the average 65-year old couple will need $260,000 for healthcare expenses alone during retirement.[9]
- **Leaving the workforce early.** 49% of Americans retired earlier than planned due to declining health, downsizing, or other reasons.[10]
- **Living longer lives.** If you're married at age 65, there's a one-in-three chance one spouse will live to age 95.[11]

Retirement Income Gap

Many medical professionals face a potential income shortfall at retirement, further increasing the need for you to start saving early in order to have time and compound interest on your side. One reason for this income gap can be attributed to the maximum monthly Social Security benefit which replaces a much smaller amount of income for higher earners. In addition, even if you're contributing the maximum amount into your employer-sponsored retirement plans, the IRS contribution limits can prevent you from saving enough to replace income. This is why it's important to take advantage of the other retirement savings vehicles available to you, including:

- IRAs and Roth IRAs
- Employer-sponsored 401(k) and 403(b) plans in the workplace
- Investments such as stocks, bonds, etc.*
- Fixed and variable annuities*
- SEP (Simplified Employer Pension) for additional 1099r earnings
- Permanent life insurance

*Investments are subject to risk, including the possible loss of the money you invest. Investors should consider the investment objectives, risks, charges, and expenses of variable insurance and annuity products carefully before investing. Please carefully read the prospectuses for the relevant variable products and its underlying investment options.

Physicians nearing retirement are on-track to replace only 56% of their income.[7]

Monthly Savings Needed in Order to Retire at Age 65 with $1 Million		
Age	Assuming 6% Annual Growth	Assuming 8% Annual Growth
30	$699	$434
40	$1,436	$1,045
50	$3,421	$2,871

This information is for hypothetical purpose only.

While it's never too late, the sooner you start contributing to your retirement, the bigger the impact on your savings. Together with your financial professional, you can create a retirement plan best suited to meet your individual needs, goals, and timing.

6 www.bestmedicaldegrees.com/salary-of-doctors
7 Fidelity Investments, Physicians' Savings Behaviors and Retirement Readiness, 2014
8 Pension Benefit Guaranty Corporation
9 Employee Benefit Research Institute, 2010
10 LIMRA, Retirement Study - Consumer Phase, 2012
11 Annuity 2000 Mortality Table

Business owners are often too busy managing day-to-day activities to adequately plan.

Many medical professionals are also business owners who are busy running a thriving practice. Between seeing patients, managing staff and never-ending paperwork, it's easy to put off crucial, long-term financial planning that could help you and your practice. Before you know it, you're five or ten years down the road with key financial planning areas still unaddressed.

If the unexpected happens, your business could change in an instant. Many unforeseen factors, such as changes to the economy, your health, or your key employees, may cause you to have to draw on your savings or downsize your practice unexpectedly. That's why it's important to address those issues now rather than later.

Working together with a financial professional, you can address the following:

- What would happen to your business if you suddenly weren't here?
- What would happen if you became disabled, or decided to retire?
- Can your practice run smoothly without you?
- Would your patients stay—or are you the reason they're patients in the first place?

4 Critical Planning Areas

- **Succession Planning:** Many people think of succession when getting ready to retire. However, when disability, divorce, or death of a business partner occurs, you may suddenly find yourself in need of a plan. What then?
- **Retirement Planning:** If your practice factors into your retirement plan, you need to consider unique challenges—like ensuring you have a reliable income stream and, if necessary, a buyer for your practice.
- **Estate Planning:** Put aside those images of butlers and private jets; estate planning is not just for the super wealthy. In fact, it's imperative for medical professionals who are also business owners with a lot of net worth tied to their practice.
- **Key Employee Planning:** It's important to recognize and reward vital staff members who help you keep the business running smoothly, allowing you more freedom to focus on business growth. Taking the right steps now could help keep you from losing a critical employee in the future.

With the help of your financial professional, you can develop a solid business plan. One that rewards and retains key employees, plans for an orderly succession of your business, and diversifies assets so you don't have a disproportionate amount invested in the practice.

12 "Survey of America's Physicians: Practice Patterns and Perspectives," The Physicians Foundations Survey, 2012

Physicians spend over 20% of their time on non-clinic paperwork.[12]

Start Securing Your Financial Future Now

A secure financial future doesn't just happen. It requires thinking ahead, identifying your needs and goals, and developing a plan to achieve those goals. Once you have your plan in place, it's just as important to monitor it regularly and make adjustments as your life changes and circumstances evolve.

As a medical professional, you have additional challenges and complexities to overcome with your financial planning. That is why it's important for you to get started as soon as possible. Partner with an experienced financial professional who can help you navigate the increasingly complex financial environment.

Your financial professional can assist you with the plans, tools and products to help get you where you want to be. The smartest move you can make is to simply start planning now, while you have the time to maximize your savings and earnings potential.

If you're like most medical professionals, your primary focus is on taking care of others, leaving little time to take care of your own financial health. Take the time now to start planning for a secure financial future.

THE VALUE OF Working With A Financial Professional

The need for a financial professional has never been greater. Today's financial climate is more complex than ever before, with a wide variety of products and resources available to you. To help get you on track, you will need the help of a financial professional who can build a plan tailored to your unique objectives; guide you in making critical financial decisions for your financial future; and help you achieve your financial goals through all life's stages.

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