Financial Planning for Physicians

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Financial Planning for Physicians

- What is a Financial Plan?
  - Understanding Your Current Financial Situation
  - Develop Your Goals and Objectives
  - Recommend an Action Plan for Short Term and Long Term
- Debt Management
- RRSP vs Debt Repayment vs Combination of Both
- Investment Strategies

Overview of Financial Plan

- Financial planning steps include:
  - an evaluation of current and future financial resources
  - development of step by step recommendations to help individuals achieve their goals and objectives, both personal and financial.
- A financial plan includes saving, investing, insurance, debt repayment strategy and tax planning. It is typically created with a Financial Consultant/Advisor.

Understand Your Current Financial Situation

- Determine your Statement of Net Worth. This is a compilation of your assets (what you own) and liabilities (what you owe). Examples are:

Examples of Assets	Examples of Liabilities
- Cash in bank Accounts	- Credit Card Balance
- Canada Saving Bonds	- Personal Line of Credit
- Stocks, Bonds and Mutual Funds not included in RESP, RRSP & TFSA	- Bank and other Loans
- Medical Library and Equipment	- Income Taxes Owed
- Jewelry, Valuable Coins, etc	- Car Loans
- Personal Property	- Government Student Loans
- Market Value of your Car	- Loans from Family Members
- Registered Education Savings Plan (RESP)	- Other Debts
- Registered Retirement Savings Plan (RRSP)	
- Tax Free Savings Accounts (TFSAs)	
- Cash Surrender Value of Life Insurance	
- Market Value of your Home (if owned)	

Understand Your Current Financial Situation

- Sample Net Worth Statement:

Dr. Smith, PGY-2 Statement of Net Worth As at December 31	
Assets ($)	
Cash	500
Medical Library	1,000
Used Vehicle	5,000
Total Assets	**6,500**
Credit Cards	1,000
Student Loan	80,000
Total Liabilities	**81,000**
Net Worth	**(74,500)**

Many physicians start their career with negative Statements of Net Worth

Develop Your Goals and Objectives

- Look to the future and determine where you want to be. Financial goals can be:

Short Term Goals	Long Term Goals
- Purchase a $300k house within 2 years having a 10% down payment. - Pay off $75K in student loans with 3 years - Save $15k for a trip to Europe in 2 years	- Retire comfortably at age 60 with $75k in retirement income / year - Purchase 2nd house in Florida in 10 years - Save $100k for my children's education by 2025

Studies have shown that people who write down their goals are 80% more likely to achieve them. *

** www.creativelivinginc.com/Articles/**goals**.htm*

Action Plan for Short and Long Term

- Work with your financial planner to:
  - Determine the amount to invest
    - Understand what your risk profile is
    - How you want to invest – GICs, bonds, equities –mutual funds
  - Evaluate your insurance needs (life, disability, home, auto)
  - Determine how to optimally tackle your debt

Action Plan for Short and Long Term

- Your financial planner will develop your strategy in a document with your input.
- Work with your financial planner to execute your strategy.
- Periodic reviews of the strategy are needed to ensure you are on track or in need of refinements.

Debt Management

- The good, the bad and the ugly
  - Good debt helps you earn income (salary, income or capital appreciation). Examples are students loans and a mortgage for a house.
  - Bad debt tends to be short term where the loan can have longer life than what you bought or there’s no financial impact. Examples are car loans with long repayment terms, taking vacations on lines of credit.
  - Ugly debt is high interest debt used to pay for consumer items. Payday loans or high interest credit cards.

Debt Management

- Set a budget and stick to it-start with Cash Flow Analysis
- Pay off your debt with the highest interest rates, usually credit cards, first.
- Consolidate loans if you can get a lower interest rate.
  – Analysis has to take into consideration interest deductibility of student loans & other student loan conditions for tax purposes (ie loan forgiveness rural/remote Family Medicine)

RRSP vs. Debt Repayment vs. Combination of Both

- Should you invest for retirement, pay down your debt or do a combination of both?
  - It depends
    - On your comfort level with indebtedness
    - On your ability to accumulate savings
    - On whether your perspective is somewhere in the middle

RRSP vs. Debt Repayment vs. Combination of Both

- Example: A married couple just starting their career as physicians and have $72,000 in debt between them. What does the next 5 years look like:

Concentrate on Savings		Concentrate on Debt Repayment		Combination of Both	
Invest $15,000 (Jan 1) per year for 5 years and make 8% return each year.		Pay $15,000 (Jan 1) per year on debt for 5 years. Debt Interest is 5%.		Invest $10,000 (Jan1) per year for 5 years and make 8% return each year.	
Debt interest rate is 5% per year - no payments made.		No investments made.		Pay $5,000 (Jan 1) per year on debt. Debt interest is 5%	
Total Value of Investments Year 5	95,000	Original Debt	72,000	Total Value of Investment Year 5	63,500
		Interest on Debt	7,600		
Total Debt	88,500	Repayment of Debt	-75,000	Total Debt	60,000
Net Worth	6,500	Net Worth	-4,600	Net Worth	3,500

Investment Strategies

START EARLY

Physician A	Physician B
Invests $20,000 at a rate of $1,000/year from 1991 to 2010.	Invests $20,000 at a rate of $2,000/year from 2001 to 2010.
Investment value at end of 2010: $45,762	**Investment value at end of 2010: $28,973**

Investment Strategies

- Utilize all options available to you
  - Registered Retirement Pension Plans (RRSP)
    - Taxes deferred to future years
  - Tax Free Savings Account (TFSA)
    - Income growth not taxed
  - Registered Education Savings Plan (RESP)
    - Canada Education Savings Grant (CESG) will top up your annual contribution by 20%, up to a maximum of $500 each year for each beneficiary.

Financial Planning

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