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TIPS TO MAXIMIZE YOUR FINANCIAL PLANNING


Flexibility is a fundamental factor for success in any retina specialist's financial plan.

BY DAVID B. MANDELL, JD, MBA, AND ROBERT PEELMAN, CFP

When it comes to long-term financial and retirement planning, many individuals, families, and even some practices rely on static, set-it-and-forget-it plans. This article examines flexibility as a key component of achieving long-term financial success and building an individual retirement plan. The following financial elements should each incorporate a level of flexibility.

INCOME AND CASH FLOW

Few physicians can accurately predict their future incomes, so flexibility must be part of retirement planning. Living below one's means and prioritizing saving (each month, quarter, and year) can position the physician to weather any temporary or long-term financial droughts.

Another tactic is the implementation of a savings vehicle that allows uneven funding or investing from year to year. In the area of qualified retirement plans, one example would be a defined contribution plan that allows flexibility in individual contributions each year. This is in contrast to defined benefit plans, which require a certain level of funding and can entail underfunding penalties.

More relevant still are nonqualified plans, which allow much higher contributions than defined plans when an individual's income is high but can be skipped entirely during years in which income wanes.

TAX RATES

Significant changes to the 2017 and 2018 tax code underscore the need for flexibility in retirement planning. Taxes will continue to change, and tax rates may look different in 10, 20, or 30 years. A "tax diversification" approach helps alleviate potential future issues. Many financial planners advocate diversification of asset classes in investments, but it is equally crucial to diversify the tax rate exposure to one's wealth.

When we look at investment plans from the perspective of tax diversification, we see that most investors have inadequate investments in asset classes or structures that will be immune to future increases in income or capital gains taxes. Assets such as cash-value life insurance, tax-free municipal bonds, Roth IRAs, and other vehicles should be part of any wealth-building plan. The bottom line is that individuals need enough flexibility to be prepared for possible tax rate changes during their investment timelines.

THE MARKETPLACE

In this context, "marketplace" means more than the small sample of the stock market in the United States that is represented by the Dow Jones Industrial Average or even the S&P 500 index. There is volatility in all securities, commodities, real estate, and other asset marketplaces domestically and internationally. Values often go up, but they also come back down.

Savvy investors understand that portfolio diversification is key to reducing risks. Rather than staying within a specific area, such as securities or real estate, diversification must cross investment classes, especially in a volatile market. A balance of asset classes—international and

AT A GLANCE

- Living below one's means and prioritizing saving can position physicans to weather any income or cash-flow issues.
- Cash-value life insurance, tax-free municipal bonds, Roth IRAs, and other assets should be included in any wealth-building plan.
- It is imperative that conservative wealth plans take potential health changes into consideration.

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domestic, traded and untraded, correlated to markets and noncorrelated—constitutes a flexible long-term approach.

Another asset class that allows flexibility is permanent life insurance—specifically, a policy with tax-deferred growth and asset protection. In universal life policies, funding can be flexible from year to year, unlike whole life policies, for which funding must occur each year.

LIABILITY

Any planning designed to shield wealth from a legal claimant, creditor, or even a soon-to-be-former spouse is typically not effective if it is implemented only when the threat becomes reasonably foreseeable. That is to say, asset protection planning must be put into place before there is a problem.

The challenge is that the physician wants to maintain ownership of, control of, and access to his or her assets at times when there is no looming liability threat.

Fortunately, with comprehensive asset protection planning, these goals can typically be accomplished utilizing exempt assets, legal tools, insurances, and proper ownership forms. Individuals can generally build flexibility into financial plans using tools that protect wealth if and when there are liability threats but still allow ownership, control, and access to that wealth when the coast is clear.

HEALTH

Health is the single most important element in planning. At one extreme, being in good health is a blessing that allows individuals to be more productive, to create more wealth, and to enjoy it. At the other extreme, poor health can keep individuals from earning a living and even lead to premature death, which can have a devastating economic impact on the surviving family. Because of this, it is imperative that conservative wealth plans take potential changes in health into consideration.

Disability and life insurance are essential. Securing insurance protects the physician's ability to earn, providing a regular income stream in the event of disability and offering financial protection to heirs in the event of death. The likelihood of a significant long-term disability is higher than the likelihood of premature death.

According to a 2013 US Social Security Administration fact sheet, just over 25% of today's 20-year-olds will become disabled before they retire. Nonetheless, many high earners are underinsured for disability. In the same sheet, the US Social Security Administration also noted that about 100 million American workers are without private disability income insurance, presenting a financial risk.

Life insurance coverage is needed not only if one has concerns about meeting individual financial goals, but also if these concerns apply to the financial welfare of one's family. There is a variety of life insurance products, from term to cash value and from whole life to private placement.

Whatever product is chosen, planning is needed to assure adequate coverage given one's income, debt, assets, family situation, tax rate, state of residency, and goals. These are typically analyzed on a case-by-case basis depending on one's situation.

START PLANNING, STAT!

The sooner a physician starts financial planning, the better off he or she will be for the future. The elements of individual plans will differ, and circumstances such as age, income, and goals will dictate what must be emphasized. It's important to get started and build some flexibility into the plan to remain as prepared as possible for changes down the road. ■

DAVID B. MANDELL, JD, MBA
- Principal, OJM Group, Cincinnati, Ohio
- david@ojmgroup.com
- Financial disclosure: None

ROBERT PEELMAN, CFP
- Director of Wealth Advisors, OJM Group, Cincinnati, Ohio
- bob@ojmgroup.com
- Financial disclosure: None

David B. Mandell, JD, MBA, is an attorney and author of more than a dozen books for doctors. To receive free print copies of his latest work, For Doctors Only: A Guide to Working Less and Building More and Wealth Management Made Simple*, visit www.ojm-bookstore.com and enter promotional code RETINA05 for a free ebook download for your Kindle or iPad.*