Financial Designs, Inc.

5 ESSENTIAL FINANCIAL STEPS FOR PHYSICIANS

At Financial Designs we have spent the last 40 years guiding physicians on how to make the best financial decisions possible. It's no secret physicians leave residency with likely high debt and a shorter amount of time to achieve financial independence than their non-physician peers. We know what it takes to lay a strong financial foundation. To get started, see below for the essential "to dos" you should be considering as a physician.

#1: Reduce Your Tax Burden

Reducing your taxable income literally means you will owe Uncle Sam less. We have many independent contractor physicians that are saving upwards of $30,000 in taxes a year. One of the biggest ways to reduce your taxable income is to contribute the maximum amount to your tax-deductible retirement savings account. For W2 employees, the maximum is $19,500*. For independent contractors, the limit is $58,000* ($64,500 for those over the age of 50). Conservatively, if you contribute $58,000 at a 24% tax bracket, you will save $13,920 in taxes. If you are an independent contractor, there are additional ways to significantly lower your taxable income:

- **The Qualifying Business Income (QBI) deduction** can save you thousands. This allows you to deduct 20% of your income as a "pass-through" deduction, meaning you don't get taxed on those dollars. Ask a CPA if this is a deduction that you qualify for.
- **Retirement savings contributions** (as mentioned above) are a great way to save in taxes. If you are an independent contractor, you can also explore advanced strategies like hiring your spouse and making contributions to his/her retirement savings. Ask a CPA or financial adviser for more information.
- **Business expenses** can add up to be an impressive deduction. Items that fall in this bucket include scrubs, CMEs, licensing and even a home office for some physicians.
- **Health insurance premiums & HSA contributions** are also tax deductible.

CAUTION: It's important to work with a CPA who understands the ins and outs of a physician's finances, especially if you are an independent contractor.

** Reflects the maximum for the year 2020*

#2: Save NOW

Remember in step #1 we said retirement savings contributions can result in paying Uncle Sam quite a bit less? To no surprise, retirement savings contributions also get you started on your path to a "work optional" lifestyle. Putting off saving can have a scary effect on your long-term wealth. Work with a financial adviser who can help project what today's savings decisions will look like in 20, 30 or 50 years. For example, if you continue with your current strategy, will you outlive your money? Will you be able to purchase that vacation home or fund your hobbies? Will you leave an inheritance to your family? A good financial adviser can help project the answers to these questions. Your financial adviser should also be a fiduciary, meaning he or she acts in your best interest.

As previously mentioned, if you are a W2 employee, you can save up to $19,500* in a tax-deductible retirement plan. Your employer may also provide a match. And of course there are additional after-tax savings strategies you can deploy.

If you are an independent contractor you can save in a **tax-deductible capacity** in a variety of additional ways:

- **Save up to $58,000* per year** by utilizing an individual 401(k) or a SEP IRA.
- **Save another $25,000 per year** by hiring a spouse.
- **Save over $100,000 per year** by committing to a Defined Benefit Plan.

CAUTION: Are you thinking about addressing debt before you think about saving for retirement? Use a forecasting tool as described above to determine the long-term affect. It's worth researching before you make a final decision. Likely you will find it will be most financially efficient if you have a balance that includes both debt pay-off and tax-deductible retirement contributions.

Bonus: Build an emergency fund. Life gets messy at times. Not having an emergency fund adds a whole additional level of stress when things go wrong. If an issue arises like an unexpected back injury keeping you from working for several weeks, it sure is nice to know your bills will be covered. The common recommendation is to have 3-6 months of income available for emergencies.

Double Bonus: If you have children, consider a plan to save for their education. This could be for college and/or K-12. A 529 can fit nicely into your strategy; however, you can also earmark funds for education without having to use this specific type of an account. Work with your financial adviser to determine what is best for your family.

** Reflects the maximum for the year 2021*

#3: Protect Your Assets

One way to protect assets is through insurance. To financially mitigate surprises, ensure you have the right benefits and coverage. It's a good idea to work with an expert to get an opinion on what gaps might exist in your current asset protection strategy. Consider the below coverage:

- **Disability income insurance** shields you from financial disaster if your income decreases due to sickness or injury. This includes scenarios that would allow you to keep practicing but not in your preferred specialty. If you are a W2 employee, you should ensure the coverage your employer provides is enough for your particular needs. Work with a broker to find the best policy that will protect your future income, and ask about discounts (for example, depending on your employer we have exclusive, dramatic discounts we can offer to providers).

- **Life insurance** is vital because it can create a secure future for your loved ones if you aren't there to provide for them. However, finding the right policy – or policies – to meet your exact needs can be difficult. Work with an expert to compare the advantages of term vs. permanent policies. Also look for your adviser to arrive at a recommendation that will keep your premiums as low as possible while maximizing any future benefits.

- **Healthcare insurance** is critical to protect your assets. Even though you may be able to self-treat many of your own health challenges, the unexpected can still wreck havoc on your finances. A good broker should be able to help you determine coverage options available to you in your area and ensure you have the correct deductible level and co-insurance for you and any dependents on your plan. You should also explore the tax and savings benefits of a health savings account (HSA) and whether one makes sense for you.

You should also be protecting your assets through **estate planning**. Work with an attorney to establish a trust, incapacity protections and healthcare directives, and name guardians for minor children.

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#4: Evaluate the Need for an Entity

There are several factors that determine whether or not you need to set-up an entity including income, marital status, your employer's policy, etc. In most cases, the complexity associated with this decision-making process warrants a phone call to a CPA. If you are a 1099 physician, you file as a sole proprietor by default unless you set-up one of the entities described below:

- **Limited Liability Corporation (LLC):** Required by some employers. This kind of entity may also provide some liability protection as it separates your personal assets from the business (it typically does not cover "on-the-job" protection, and malpractice insurance is needed for that). An LLC that is 100% owned by a single individual is taxed as a sole proprietor, so all income and deductions are reported on your personal tax return. Some states use a PLLC designation (Professional LLC) as opposed to a regular LLC for medical professionals, but there is no difference from a tax standpoint.

- **S Corporation:** An S Corp is more expensive to manage but could provide more tax savings (particularly Medicare tax savings) resulting in more disposable income in your pocket.

CAUTION: Some physician's choose to set-up a S Corp to save Medicare tax. With the introduction of the QBI deduction in 2018, this strategy isn't always the most tax efficient. Work with a CPA to determine the most tax efficient for your scenario.

#5: Plan for Fun

Vacations and hobbies are the best, and they can be expensive. However, if you have a "fun fund" that you regularly contribute to, you can eliminate the stress of paying for these activities. Going on a fabulous vacation is waaaayyy more fun when you aren't stressed about how to pay for the bill. As you watch your "fun fund" grow, you find your mindset shifting from "what can we afford to do" to "how should we spend our fun money this year".

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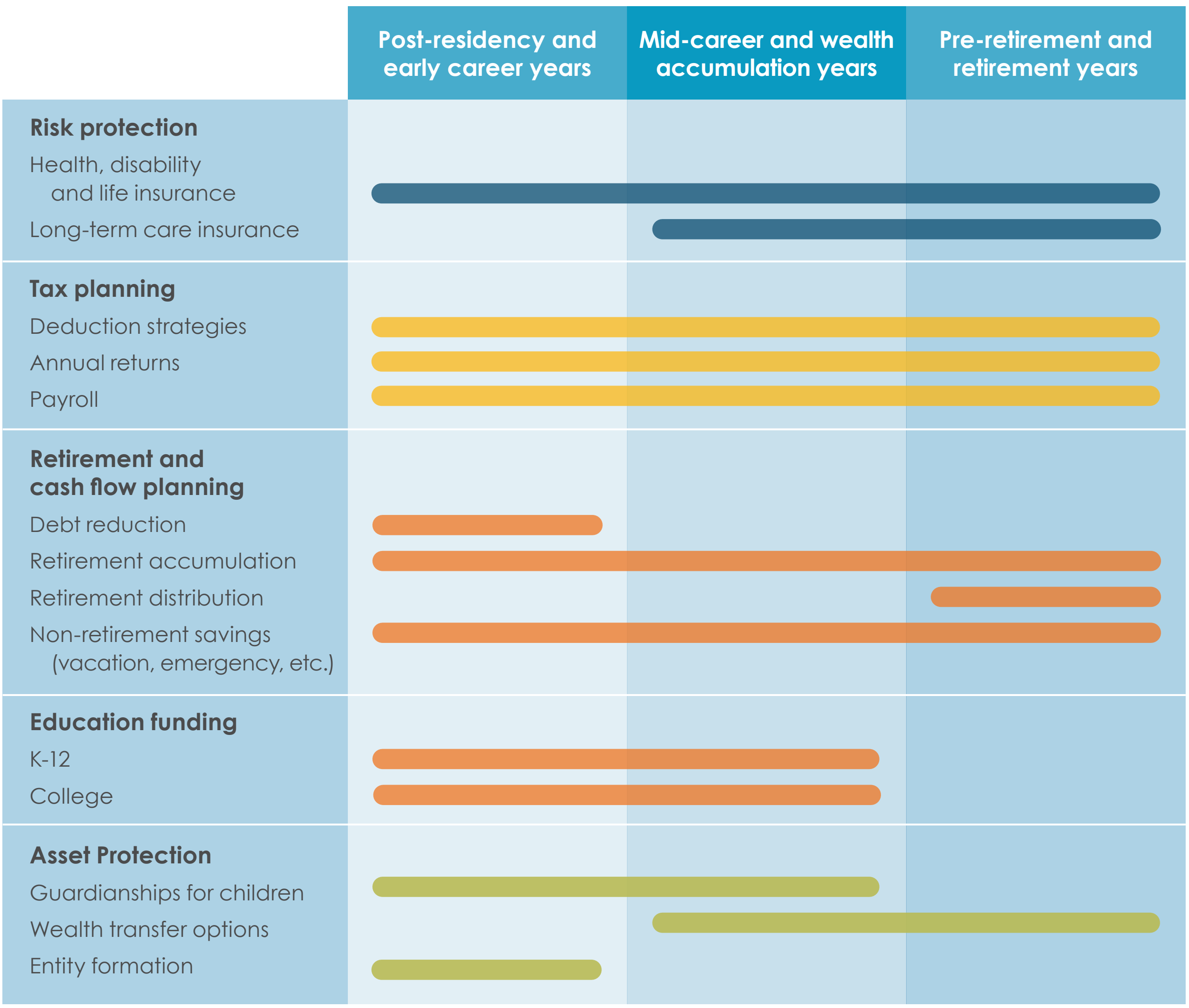
FINANCIAL INDEPENDENCE, ONE STEP AT A TIME

Financial Designs is devoted to creating custom financial strategies for our clients. You can trust us with all your financial and benefit needs, or pick and choose which services fit your needs at the time. Our team-based approach means you'll have a specialist helping you every step of the way, coordinating seamlessly with our other departments. We're ready to help you meet your personal and financial goals, no matter what kind of life changes come your way.



We provide periodic reviews to keep your plans and accounts fully updated.

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We focus on tomorrow so you can focus on today.