7 Mistakes Even Financially Savvy Physicians Could Make

Despite their incomes and professional success, doctors can make terrible investors. As a physician, avoiding these common missteps will provide you the solid foundation necessary for a long-term financial plan.

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Introduction

Practicing physicians generally rank among the highest-income-earning professionals, and doctor compensation shows an upward national trend. A growing demand for physicians in the United States is creating a shortage of practitioners and, in turn, driving up doctor salaries. What's more, medical specialists with advanced education and experience can demand even higher wages—the average neurosurgeon, for example, earns more than $650,000 a year.[1]

To be sure, doctors work hard for their money. The effort, focus, dedication, persistence, and financial expense they put forth to become physicians is admirable. Despite those many excellent qualities, doctors do not always make good savers and investors. Indeed, physicians often make costly financial mistakes which can delay their ability to retire.

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In this White Paper, we outline seven common missteps physicians make in saving, investing, and spending their well-earned money. As a physician, learning these frequent mistakes will help you avoid making them and provide you with some groundwork for establishing a solid long-term financial plan.

Avoiding the investment mistakes many physicians make can help set you on a trajectory to long-term financial freedom.

#7: Ignoring the Time Value of Money Theory

A fundamental principle of finance states that money available for investment today is worth more than the same amount of money will be worth in the future. The theory, known as **the time value of money,** demonstrates that money's potential earning power increases its current value.[3] That basic concept is often overlooked by investors and savers, especially early in their working careers.

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Physicians generally fail to recognize that, by the time they start getting paid well, they'll have significant financial catching up to do.

For physicians, medical school, residency, and fellowships postpone their entry into the workforce. By the time they begin earning their first substantial paychecks, new doctors have serious catching up to do in their retirement savings. It could be tempting to spend those first wages buying an expensive car and a big house. However, when it comes to building wealth, investing toward retirement and repaying debt is the wiser decision.

Considering the time value of money, positioning for your financial future is a better way to allocate today's cash than making large purchases. An experienced financial advisor can illustrate how putting that theory to work could benefit you.

#6: Couples With Spending Differences

Married couples and others committed to long-term relationships should approach retirement planning as a joint venture. However, some couples have different opinions about spending and saving money. While one person in the relationship might be a committed saver, the other could be a big spender.[4] When that happens, conflict usually results, and long-term financial security suffers.

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A financial advisor can act as an intermediary and, when it comes to retirement planning, help get couples on the same page.

Communication between partners concerning saving and spending habits is vital to their retirement planning's overall success. That's where having a trusted financial fiduciary can help. By meeting together regularly with a financial advisor, couples benefit from having a mediator who can explain their options and help get them working toward common goals.

#5: Falling for Society's Expectations of the Physician Lifestyle

A troubling societal undercurrent causes many people to perceive that all physicians are wealthy.[5] In reality, deferring income throughout medical school and during on-the-job training leaves newer practitioners with little or negative net worth for several years. For some physicians, society's expectations—and those of their higher-earning peers—pressure them to spend far beyond their means. As a result, rather than building retirement savings, those doctors continually struggle to make ends meet.

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Ignoring society's spending expectations early in your career helps establish a better measurement of financial success.

Physicians would do better financially by taking a total-picture approach to wealth. By ignoring society's expectations about what clothes they should wear, which neighborhoods they should live in, and what material possessions they should accumulate, doctors can go against the prevailing tide and map a successful financial course.

Getting sound financial advice early in their working careers benefits employees in any occupation. However, new physicians pressured to live up to society's expectations would be smart to find a professional experienced in helping doctors with long-term financial planning.

#4: Retiring Too Soon

Being a doctor is a demanding vocation, and physicians face daily stress that few non-medical professionals could comprehend. Long hours, litigation risks, increasing hospital productivity expectations, and healthcare regulatory changes can lead to burn out—and thoughts of early retirement. But not all doctors have the financial wherewithal to retire early comfortably.

The problem is in the math: If it takes them until age 30 or so to finish medical school and training, there are not enough money-earning years for most doctors to build a net worth necessary to retire by age 55 or 60.

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To accumulate enough money to retire comfortably, physicians might need to work until age 65 or 70.

According to a national survey, the average U.S. doctor expects to work until age 68, **five years longer than workers in general.** A desire to maintain their existing lifestyles is a top reason physicians list for planning to work longer than they hoped. And, not surprisingly, when asked what they would have done differently early in their careers, 34 percent of physicians wish they had started saving for retirement sooner.[6]

How do you know when you should be in a position to retire comfortably? Consult an experienced financial advisor about specially designed calculations that can help forecast how much income you will need in retirement.

#3: Getting Investment Advice in the Physicians' Lounge

Like many accomplished professionals, doctors can be quick to believe that success in their chosen vocation should carry into other ventures—including investing. However, that is not always true. Accumulating wealth and making good investment decisions can be quite challenging for many physicians.[7]

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Falling for the allure of promising get-rich-quick investments could very well lead you down a path to financial destruction.

Further complicating matters are fellow physicians eager to boast about their financial prowess and offer the latest “big tip.” While logic tells us to disregard amateur investment advice, two related emotions can overpower our common sense: the fear of missing out (FOMO) and comparison.[8]

FOMO is a powerful sentiment that causes many investors to follow the crowd into buying or selling a particular investment—or into or out of the market altogether.

Comparison leads physicians to measure their investment results to that of others, rather than to their own goals. Both emotions fail to consider the many factors that influence an investment’s ultimate results.

Investment advice from a doctor is like a medical diagnosis from a financial specialist: well-intentioned, perhaps, but probably wrong. Therefore, gauge the validity of “sure thing” ideas by running them past a seasoned financial expert. Moreover, when it comes to investing, take your advice from qualified professionals.

#2: Investment Planning That is Too Complex

Physicians hire attorneys, accountants, and other professionals to help make their medical practices successful. Unfortunately, many well-meaning experts tend to introduce complex planning techniques—and that can be true of financial advisors. You see, when it comes to investment planning, simplicity is often the best approach.

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Complexity is the enemy of proper planning.

Investing can seem intimidating to some doctors. Like most people, physicians are likely to lack formal investment training—and to fear costly mistakes. Financial advisors who propose overly complicated investment plans are creating a worrisome—and an unnecessary—burden for their clients.[9]

A capable financial advisor would be able to illustrate a simple but highly effective investment plan using just three components:

- Bank accounts with liquid funds for emergencies and opportunities
- An investment portfolio for long-term wealth building
- Insurance for protection purposes

Planning for retirement doesn't have to be complicated. If your plan seems complex, you might need a different advisor.

#1: Underestimating How Much Money They'll Need for Retirement—and the Annual Contributions Necessary to Get There

Conventional wisdom suggests that people should have lower living expenses after retirement than they had when they were working. While that supposition holds roughly half the time, 46 percent of retirees spend more money, rather than less, after they stop working.[10]

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Understanding the amount necessary to adequately cover expenses in retirement and—most importantly — having a plan to get there, will separate you from your colleagues.

Having underestimated the costs of healthcare, travel, or leisure activities, a good share of retirees find themselves drawing down their savings faster than they anticipated. And that puts them at risk of running out of money.

When looking toward retirement, physicians —like everyone else—need to develop two long-term plans. The first is a strategy for accumulating the money they'll need throughout retirement. The second is a properly developed distribution strategy, which is reviewed on a regular basis.

A trained financial advisor can help you project the post-retirement income you'll need to enjoy life the way you want. With that knowledge, your advisor will help you develop and execute a comprehensive plan to build the wealth necessary for your desired lifestyle.

SUMMARY

The time and financial sacrifice required to become a physician leaves doctors facing a late start on saving for retirement. In their efforts to make up for lost time, many follow unsound investment advice, overspend early in their careers, or make other costly misjudgments.

This White Paper’s key point is that most physicians need the support and expertise of a financial advisor who—leading up to and during retirement—will meet with them regularly and help them achieve their objectives.

Choosing a financial advisor experienced in working with physicians should be your first step on the path toward financial wellness.

NOTES

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