Reimbursement and Financial Planning for Physicians

By Rachel V. Rose, JD, MBA [6]

A financial expert explains how a physicians financial planning is often different from that of the average American due to complexity and a compressed timeline.

Source: Physicians Practice

While the healthcare landscape remains in limbo and reimbursement shifts from fee-for-service to performance based medicine, it is vital for physicians to consider the fiscal implications for their personal and professional lives.

In light of this, it is my pleasure to bring forth the insights of Colin Wiens, CFP, MBA, Southern U.S. Regional Director for Larson Financial Group, LLC and Larson Financial Securities, LLC.

RR: How is the current healthcare landscape impacting physicians and their fiscal and financial planning?

CW: Increased regulation and decreasing reimbursements puts a significant strain on the clients we work with. I've been told by many clients that they first pursued medicine as a career to help heal, not to stay up until 9pm working on their charts and notes in the business of medicine. As a result of this increased work-life pressure, to-dos like cash flow and debt management, working on an estate plan and updating beneficiaries, regular review of asset protection and insurances, and rebalancing their retirement portfolio and college savings seem to get put on the back burner.

Back in the "golden era" of medicine, more physicians might have had more time for these important tasks, but these days more physicians are wanting to spend the little time they have at home with their fourteen-year-old rather than with their 401(k).

RR: How does financial advice vary for physicians?

CW: From a financial planning perspective, I believe there are four primary areas of distinction between physicians and the average American:

• Compressed timeline: The average physician spends four years in medical school (and has associated student loans) and three to seven years in residency/fellowship. It's not uncommon for me to meet young physicians who are in their thirties before their "first real job," – much longer after many of their college friends started savings to their retirement plans. Then with physician burnout at an all-time high, the desire to move into retirement generally starts younger than the average American. The impact of this compressed timeline is physicians may need to save for retirement in 25 – 35 years rather than the traditional 40-45 years.

• Investment Complexity: The average American is commended for annually maxing $18,000 out to a 401(k) and $5,500 Roth IRA (this would represent 32 percent of the average household income according to the latest report from the US Census Bureau). But according to the latest MGMA Provider Compensation report, this same amount would account for less than 7 percent of the median OB-GYN salary – a stark difference from the 25-30 percent of savings necessary I often see in my practice. As a result, physicians often look to more complex investment products: taxable brokerage accounts, backdoor Roth IRAs, cash balance plans, multiple 401(k)'s from locum's income, and cash value life insurance and annuities. Many of these options increase in complexity and cost, so great care should be taken in evaluating what is best for a physician's plan.

• Asset Protection: From medical malpractice concerns to increased car accident liability (potentially as a result of the EYE DCTR license plate), physicians feel a large target on their back and this requires a different level of financial planning before any adverse event or outcome ever occurs. This may impact how a doctor and spouse owns their home or how they structure your auto/home/umbrella insurance. As a physician saves for retirement, it’s important to make sure that a frivolous lawsuit doesn’t jeopardize the plan, and a basic asset protection plan (built with the help of a qualified attorney), can help create a level of insulation and protection.

• Societal Lifestyle Pressures: The delayed gratification from years of training and society's expectation of what car a doctor should drive and how big their home should be is a financial pressure cooker for over-spending. This requires doctors and their families to purposely prioritize and regularly evaluate whether or not their financial habits align with their financial goals, because
society will try it's best to make a misalignment.

**RR:** In light of the shifts in reimbursement and the uncertainty about the healthcare laws, how is your advice to physicians changing from what it was five to ten years ago?

**CW:** Initially, the industry's response to these changes were for many physician groups to move to hospital-employed positions. The amount of physicians interested in passive investments (real estate and other alternative) has increased significantly out of fear for their primary income from medicine. I also see many more doctors diversifying their professional marketability with other degrees and experiences

**RR:** Are there general items that physicians can be focusing on in order to keep their practice goals in line with their risk tolerance?

**CW:** I believe that having a trusted team of physician-focused independent advisors (qualified attorney, accountant, and financial advisor) will mean the difference for a small medical practice and ensure that a physician will continually work towards their goals. Be sure to look out for advisors who tell you the truth in their advice, even if it's something you don't like to hear. An independent team will be able to give you feedback based on other physician clients and industry benchmarks. Be sure your advisors have appropriate credentials.

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