



WealthAdviser



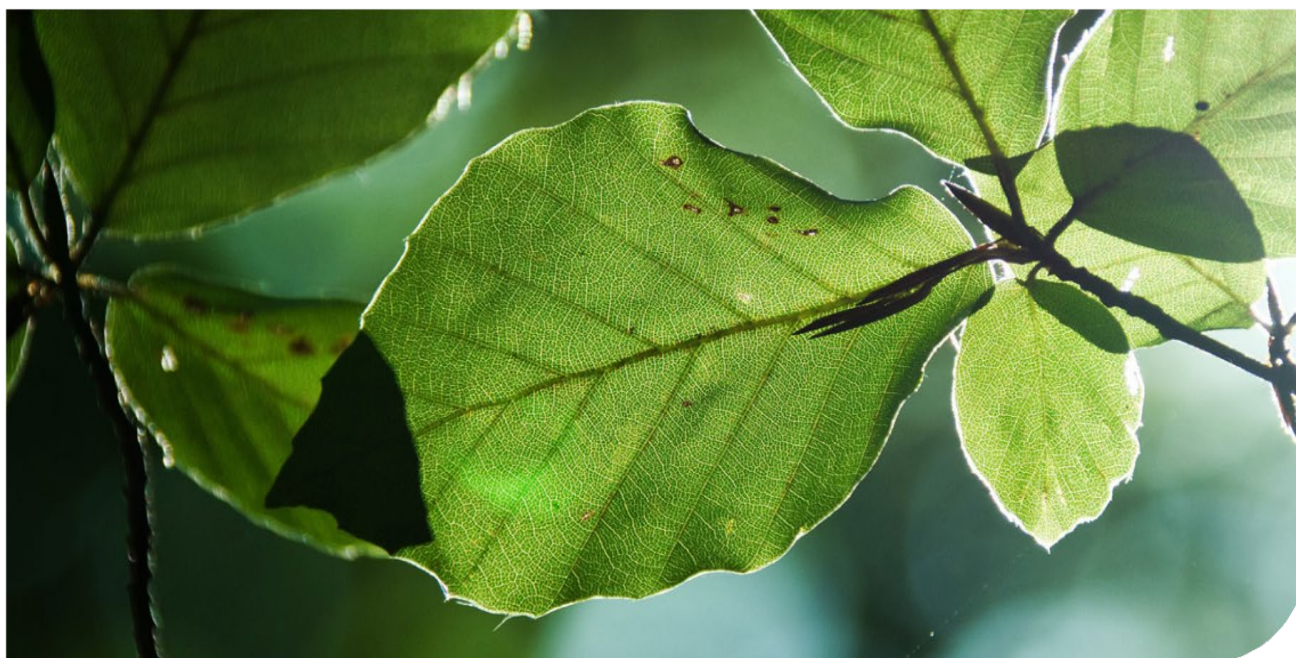
FINANCIAL PLANNING



FOR SURGEONS

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Before you get started

This digital handbook contains general and factual information only, and is part of the Wealth Adviser library, published by:

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Before acting on any information contained herein you should consider if it is suitable for you. You should also consider consulting a suitably qualified financial, tax and/or legal adviser.

Information in this handbook is no substitute for professional financial advice.

We encourage you to seek professional financial advice before making any investment or financial decisions. We would obviously love the opportunity to have that conversation with you, and at the rear of this handbook you will find information about our authorised representative and how to go about booking an appointment.

If ultimately you decide not to meet with us we still encourage you to consult with another suitably licensed and qualified financial adviser.

In any circumstance, before investing in any financial product you should obtain and read a Product Disclosure Statement and consider whether it is appropriate for your objectives, situation and needs.

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Letter from the Wealth Adviser Library

Dear Reader

Welcome to the Wealth Adviser Library

This library was built specifically to facilitate the provision of sound financial information to everyday Australians.

Our mission is to build an accessible, comprehensively supported team of members who share our vision and commitment to providing tailored financial advice and a new foundation of financial understanding and security for everyone.

With a national network of likeminded experts, we have the potential to provide the financial building blocks for future generations.

Knowledge gives you a huge advantage

We believe that knowledge gives you a huge advantage in creating and effectively managing wealth; in planning to reach your goals; and in being prepared for whatever unexpected twists and turns life may present.

That's why our team of experts has created this series of digital handbooks and manuals that seek to inform you of not only the benefits but also the potential risks and pitfalls of various strategies and investments.

We trust you enjoy this publication and find it informative and professionally presented. Of course, your feedback is always welcome as we strive to continually offer content in a format that is relevant to you.

Take the next step

Wealth Adviser (a division of WT Financial Group Limited) supports more than 400 privately owned and operated advice practices around the country. We invite you to engage with one of our advisers to discuss what it was you were hoping to achieve when you obtained this handbook, and to establish if they can help you achieve your goals and objectives.

At the rear of this handbook you will find details on how to book an appointment.

Wealth Adviser Library

Introduction

As a surgeon you have probably long realised that your financial profile and needs differ considerably from that of people of other professions. It is therefore quite likely that you struggle to find value in 'general' financial advice since most of the things that are recommended are simply not applicable to you.

The purpose of this eBook is to address this problem by offering you a resource that was written with you, the professional surgeon, in mind. We trust that you will find the information beneficial and that it would perhaps be a catalyst to help you make the decisions necessary to secure your long term financial future.

We will begin by discussing some of the typical financial issues faced by surgeons. This will be followed by some practical suggestions on how you can make your money work for you, now and when your medical career is over.

Financial challenges faced by surgeons

It is very hard (and somewhat dangerous) to generalise when it comes to personal finances. We are, however, quite certain that you will see at least something of your own financial profile in the following description:

- **Significant training costs:** Becoming a doctor is not cheap. This means that most medical professionals will have to take on a significant amount of debt in order to realise their dream to enter the profession. The problem is compounded for surgeons (and other specialists) due to the fact that they will have to work in relatively lower paying registrar positions for a number of years in order to gain specialist qualifications. This means that they will take much longer to pay off student debt.
- **Delayed earnings curves:** Almost every doctor is a late starting earner,

often years behind non-medical friends and relatives in the search for future security. In financial terms, a newly qualified specialist could be 9-12 years behind a schoolmate who became an accountant or a real estate agent within 3 years of leaving school. It is therefore not uncommon for surgeons to reach their top earnings potential much later than members of other professions and to do so at times when they have significant other financial commitments (e.g. private school fees, mortgages etc.). The upshot of this is that many medical specialists find it difficult to save for retirement.

- **Significant operating costs:** Surgeons in private practice face significant costs (e.g. staff salaries, rent, utilities etc.) to keep their businesses up and running. If these costs are not well managed, it could have a significant impact on the surgeon's personal income.
- **Vulnerability to litigation and loss of status:** Surgeons work in high stress environments where even a small mistake could lead to expensive litigation and/or being struck off the medical register. Unfortunately, many medical professionals are inadequately protected against the cost and loss of income that could result from adverse events.
- **(Often) 'Cast rich, time poor':** Surgeons can earn significant incomes based on a significant time investment in their careers. This means that many surgeons do not have the time, or the energy, to devote focussed attention to financial planning when they are not working.

All of the previously mentioned should make it clear that, although many surgeons have access to relatively high incomes, their financial position is certainly not as rock solid as the big pay checks would perhaps suggest. The following sections will focus on ways in which this position can be

significantly improved with a bit of careful planning and focussed attention.

Budgeting

A very wise person once remarked: “Unless you tell your money what to do it will simply go walkabout!” As a busy professional you will perhaps struggle to find the time to draw up a budget. We want to emphasise, however, that this is something that should enjoy the highest priority. A personal budget is absolutely essential for anyone wanting to secure his/her financial future. It is even more important in cases where your income exceeds your day-to-day needs (which may be the case if you are currently at the top of the profession) as it will serve as a mechanism to keep you from inadvertently spending funds that should last you a lifetime. Some basic principles of budgeting include the following:

- Set spending targets and stick to them: This may seem like a complete no-brainer, but the disregarding of this rule sits at the heart of most budget related woes. It would perhaps be possible to live beyond your means for a few months or even years, but this kind of lifestyle will exact its toll sooner or later. Usually in the form of crushing financial difficulties. The basic function of a budget is therefore to ensure that you do not cross the line into spending money that you do not have.
- Avoid unsecured debt as far as possible: It is totally unrealistic, for most people at least, to think that you will be able to go through life without ever taking on any debt. The important thing to remember is that not all debts have been created equal. Some kinds of debt (e.g. a mortgage) can have positive effects on our long term financial health as it helps us to secure capital assets (More on this later). There are, however, also other kinds of debts (e.g. high interest unsecured loans, credit card debts and ‘high end’ vehicle finance) that are almost

guaranteed to keep your personal budget from balancing.

- Make the most of what you have: One of the most common financial mistakes that people who are not in debt make is to simply assume that a lack of debt will automatically translate into a secure financial future. Nothing can be further from the truth! You will still have to take care of your money with long term investment goals in mind. Not doing so is akin to simply leaving your cash in a box under the bed!
- Be prepared for emergencies: Even the best laid plans of mice and men can go awry and there are usually some financial implications when they do! You should do your best to protect yourself against unforeseen circumstances by taking out adequate insurance and the creation of a ‘rainy day fund’ (We will focus more on this in the next section).

The discipline of budgeting is discussed more fully in a separate eBook entitled *Budgeting: The ultimate guide*.



Preparing for emergencies

None of us like to think about the possibility of difficult circumstances coming our way, but doing so (and doing our best to prepare) is an essential part of financial planning. Doing this is especially important for medical professionals, especially given the severe impact that a career stopping event could have on your income. The following elements should be combined to make sure that you are adequately prepared:

- Get excellent income protection cover: We believe that Income Protection should be a key plank in the financial strategies of surgeons. However, many of them have found that 'general' income protection insurance policies do not meet their needs. This is because these policies were not designed to take the 'surgeon specific' factors mentioned above into account. Thankfully the insurance industry is beginning to respond to the insurance needs of medical professionals by creating specialised policies. An independent and well informed financial advisor will be able to help you find the best fit for your specific circumstances.

Some of the questions that you should ask before signing on the dotted line of any policy are:

- Will I be covered for 'own occupation' (i.e. the policy will pay out if I cannot work as a surgeon)?
- Will I be covered only for base income or full earnings (Base income plus allowances and superannuation)?
- What is the waiting period before cover will commence?
- Am I allowed to specify special cover for specific adverse events (e.g. deteriorating eyesight, loss of fine motor skills and/or loss of a finger)?
- Will I be covered only whilst

at work or does the policy extend 24/7 cover?

- Make sure that you are comprehensively insured: We believe that income protection insurance is of critical importance for surgeons (which is why it was discussed in a separate section). There are, however, also some other areas of insurance that you should pay close attention to. They are:

- Personal liability insurance: This will protect you from the impact of lawsuits or compensation claims based on your actions in the surgery and theatre. You may be covered for personal liability by a policy arranged by your hospital or practice. It is advisable to find out whether this is, in fact, the case and whether the level of cover is sufficient.
- Loss-of-status insurance: Being struck off the medical register, even temporarily, can have a significant negative impact on your income. You can shield yourself from some of this impact by making sure that you have adequate loss-of-status insurance in place.
- Life insurance. A good life insurance policy will ensure that your loved ones is financially taken care of, even if tragic circumstances mean that you are no longer there to provide for them.

Some insurance companies market products aimed at medical professionals that combine some or all of the different types of insurance listed above. Some of these policies represent good value for money while others are nothing more than fancy 'wrappers' for standard

policies (Putting ‘doctor’ on a portfolio of products is no guarantee that it is indeed suited to the needs of medical professionals!). A competent and independent financial advisor should be able to help you sort the wheat from the chaff.

- Establish an emergency fund: Although taking out insurance is very important it should certainly not be the sum total of your ‘rainy day preparations’. Increase your preparedness by establishing an emergency fund that can only be accessed under certain predefined circumstances.
- Make sure that your will is up to date: Far too many professionals do not have a proper will in place. This is a pitfall that you should do your best to avoid for the sake of your loved ones. The necessity of proper estate planning is even more acute if you have a relatively high net worth since ill-defined or ‘unprotected’ estates can lead to massive tax liabilities and/or to your estate not being distributed in line with your wishes.

Savings and investments

It is our opinion that the key investment focus of surgeons should be long term wealth creation. In practice this would mean following a fairly conservative strategy geared towards securing a steady income after your working days are over. Your investment strategy should also ideally deliver lump sum income to deal with major life events like the kids going to university, major relocations and retirement.

Only if you are satisfied that the ‘bases are covered’ by using a more conservative wealth creation and preservation strategy should you even begin to consider more

aggressive speculative investments. Far too many investors have burnt their fingers at exactly this point. You can avoid getting burnt yourself by:

- Being highly suspicious of ‘get rich quickly’ schemes: Responsible investment is much more of a ‘get rich slowly’ affair.
- Diversifying risk: Putting all your financial eggs in one basket is asking for trouble and should therefore be avoided at all costs.
- Using Professional Advice: Always making use of the services of an independent and professional financial advisor before making major investment decisions.

You cannot be a good surgeon with about the ability to use different aspects of your craft to plan the best possible outcomes. In the same way you cannot become a wealthy surgeon without a grasp of the six basic principles of wealth creation and the way they interact. The principles are:

Wealth demands discipline

Wealth is created through investing in assets that appreciate over time, and this requires capital. Unfortunately, there are only two legitimate ways to accumulate capital – saving or borrowing. The right decision at any stage of your life depends on your personal assets and liabilities, your goals and your position on the lifetime clock. Making the right decision (rather than hoping for the best) demands that you sit down and define a clear life goals and a plan that will help you achieve them. Once you have a goal and a plan, it becomes much easier to evaluate the pros and cons of a saving or spending decision.

Just having a plan makes you more likely to become wealthy.

One of the main differences between successful people and the rest is that they have personal goals that are important enough to strive for. If there is a price to be paid, they will pay it in order to reach their objective. At the same time, just wanting something badly enough will not make it happen. You also need a plan that will help

you reach those goals.

An effective financial plan is like a bridge that will take you from where you are now to where you want to be, except for one vital difference. Instead of being fixed and immobile like a real bridge, a financial bridge has to be flexible. The reason for this is simple. When your life or the outside world changes, your goals change too. If they do, the plan has to be adjusted to take the changes into consideration.

Debt can make you wealthy

In Hamlet, one of William Shakespeare's most famous plays, fussy old Polonius advises his young son Laertes, 'Neither a borrower nor a lender be'. This could be good advice for an inexperienced young man leaving home to go to university in another city, but if we all followed it many of us would end up a lot poorer. Most of us would never own our home unless we borrowed a substantial amount of money from the bank to finance it. And since buying a home allows us to stop paying rent and start paying for an asset that will one day almost certainly be worth a lot more than we lay out in home loan repayments, it is obviously a good thing to do. So if we agree that borrowing is not always a bad thing to do, the question is when is it good to borrow and when is it bad?

- **Bad debt:** is borrowing simply to spend, either on day to day things like clothes or cars i.e. things that lose value from the day you buy them.
- **Neutral debt:** is when you borrow money to buy an appreciating asset, but you are legally unable to claim any tax rebate on the interest you pay. Standard home mortgages fall into this category.
- **Positive debt:** is a borrowing that can actually fuel personal wealth creation and is when you borrow to buy an appreciating asset such as land, real estate or shares. Not only is the asset you buy likely to increase in value over time, but the interest you pay on the loan is tax deductible. So depending on your

income and your tax bracket, you could end up borrowing for investment virtually tax free.

Borrowing money to invest is just one answer to investing wisely. It is not the answer to every investor's prayers, but it can be a very rewarding strategy if it is done correctly.

Time, not timing, is everything.

'The great French Marshall Lyautey once asked his gardener to plant a tree. The gardener objected that the tree was slow growing and would not reach maturity for 100 years. The Marshall replied, 'In that case, there is no time to lose; plant it this afternoon!' Our mantra is to buy quality assets and let time do the rest. A handy rule of thumb is the Rule of 72, which estimates how long it will take for an investment to double in value. Divide an investment's annual return into 72, and you will get a rough idea of the number of years necessary to double your money.

Let's say you were a 30-year-old with \$10,000 at your disposal, an inheritance from your great uncle. If you apply the Rule of 72, placing the money in a fund that has historically produced an average return of 10 % will mean that you'll potentially double it in 7.2 years and build it into \$174,000 by age 60, your reward for having the discipline to invest it and not spend it.

Being 30, you may decide that your windfall is there to be spent on the overseas trip you have been denying yourself for so long, but at the very least, applying the Rule of 72 forces you to think about the true long-term cost of doing so. It can persuade us to invest money early and leave it alone, and encourage us to behave with the long term in mind.

It's not effective unless it is tax effective

Because they are wealthier they not only pay more tax, but can also make a substantial difference to the tax free or after tax part of their income just by the way they organise their affairs. It is certainly true that the tax burden on wealthier Australians has eased considerably over the last decade, but it is

still there and, in a tightening fiscal climate, it could rise again. (More about tax in the next section)

It really does not matter much whether you buy shares or property

This sounds like a heresy, but in spite of the fact that you can Google 'real estate vs. shares' and come up with at least 50 web sites telling you to do one or the other, we always tell our clients they are welcome to do either, because we believe that it does not make too much difference whether you invest in real estate or shares – if you pick the asset wisely, time will do the rest. ..

Tax issues

Many surgeons are unsure about their tax positions and the deductions that they might be able to claim. Unfortunately, this uncertainty often translates into under-claiming as a means of taking the easier and simpler route to filling in a tax form. This approach can obviously cost quite a bit of money over the long term.

The best way that you can protect yourself against giving Caesar more than his due is to spend some time listening to what Caesar himself has to say.

The Australian Taxation Office (ATO) web page contains huge amounts of information that will help you to streamline your taxes. Some of the documents relevant to surgeons include:

- Your Service Entity Arrangements
<http://www.ato.gov.au/content/downloads/N13086-04-2006.pdf>
- Taxation Ruling on Locum Doctors:
<http://law.ato.gov.au/pdf/it2677.pdf>
- Taxation Ruling on Payments to Related Persons by Medical Professionals:
<http://law.ato.gov.au/pdf/it0126.pdf>

We strongly suggest that you make use of the services of a professional advisor, familiar with the tax situation of medical professionals, to assist you in the preparation of your return. He/she should be able to interpret the information above

(and other information made available by ATO) and to apply it to your best advantage.

Planning for retirement

Planning for your retirement should be one of the cornerstones of personal financial management. It is therefore imperative that you take the time to do a few projections of the likely state of your finances in retirement. If the results of your projections are less than satisfactory you should obviously do your best to improve the position as much as possible before you actually reach retirement age!

The one area that you should pay particular attention to is the state of your superannuation fund(s). Make sure that you regularly bolster your super by making personal contributions. There are two distinct benefits to doing so, not only will you have more money when you reach retirement age, you will also have grown your fund in a very 'tax friendly' way.

As you count down the years to retirement it is very important that you 'stay on top' with what is happening with your super. Here are a few suggestions for doing so:

- Stay up to date: Make sure that you keep all documents relating to superannuation in one place and that you carefully read all correspondence and statements. This will allow you to have a consistently accurate picture of where your fund is heading.
- Keep your details up to date: The best way to prevent your super from 'getting lost' is to make sure that your fund has your latest contact details.
- Make sure that your super fund has your tax file number (TFN): You may be paying more tax on your super than you have to, giving your fund access to your TFN will reduce the likelihood of this happening.
- Consolidate your funds: If you have worked for a few different employers it may be the case that you have small amounts of super in a

few different funds. It is worth investigating whether you will not be better off by combining these funds into a single super fund. This will make your funds easier to manage and will also, in most cases; reduce the fees and charges that you are required to pay. The key questions you will need to ask before you consolidate funds is whether you are not perhaps losing valuable insurance cover by doing so or if the funds that you belong to charge such high 'exit fees' that moving will not be worth your while.

- Keep a close eye on your fund: It is very important that you carefully read all correspondence from your fund. This will, among other things, help you to understand the investment approach that governs your fund. You should also benchmark the performance of your fund against that of similar funds. If you are unhappy with either the investment approach or performance (or both) it might be a good idea to move to another provider. It is, however, highly recommended that you get professional financial advice before doing so.

Conclusion

Let us assume that you are in a basic agreement with premise that the majority of surgeons have to work very hard to compensate financially for the many years invested in study and establishing a practice.

In that sense, the ideas expressed in this eBook are intended to assist you in catching up with those who avoided all those years of study and have accumulated significant wealth and assets in the time you were studying, earning a registrar's salary and seeing patients on weekends. At the same time, you should appreciate that there is no standard prescription for wealth creation.

A good financial adviser will take a careful case history, help you define and rank your personal goals and prescribe a plan or

strategy that will enable you to achieve them, but none of this will be effective without your commitment to the goal and your determination to make the strategy work.

It is our sincere hope that the information presented above set you thinking about some of the issues that you will have to pay attention to in planning your financial future.

It would be impossible, however, to present a complete guide to all your financial planning needs in a document as brief as this. We urge you to continue your explorations by making use of some of the other resources and eBooks available.

We also stand ready to serve you with independent and professional advice, so please do not hesitate to contact us if we can be of further assistance.

Take the next step

We trust you enjoyed this publication and found it informative and professionally presented. Of course, your feedback is always welcome as we strive to continually offer content in a format that is relevant to you.

We now invite you to take the next step and meet with an adviser to discuss what it was you were hoping to achieve when you downloaded this handbook and to establish if we can help you achieve your goals and objectives.

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We look forward to meeting you soon.



Appointment booking request form

About the Adviser

Please complete the Appointment Booking Request below and scan and email to:

Appointments are available Monday-to-Friday.

Please nominate your preferred day, date and time to meet with us. One of our client services representatives will call you to confirm your appointment.

Our services

Preferred appointment day and time

Day

Date

Time am/pm

Contact details

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