

Physicians Aren't "Average Americans"

Don't Settle for Average Legal and Financial Advice

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Part 1 of 2

According to the US Census Bureau, the average American family earns less than \$49,000. That translates to an income tax liability of less than 12%. Ninety-eight percent (98%) of American families will NEVER be worth more than \$2,000,000 and owe an estate tax. Lastly, the average American is an employee, not an employer. As a result, most will never be sued because of work-related activities. Therefore, there is no need to address protection. Does the situation above sound like your life? Of course it doesn't.

As authors of books and articles, we regularly interact with publishers and with radio show hosts. Radio and television stations, book & magazine publishers, and internet content editors are looking for content for their "average" reader. They fear "alienating" their readers and listeners by including content for only the higher income audience. What this means for physicians is:

Financial and legal advice you get from television, radio, newspapers and the internet is NOT APPROPRIATE FOR PHYSICIANS!

By listening to this advice, you are like the patient who trusts his own self-diagnosis from his 10-minute Internet search, rather than trusting the experience of a specialist with decades of experience in this field.

Unless your advisors spend all of their time working with high income and high liability physicians, they won't be familiar with the techniques in our articles, free audio CDs or books (i.e., Wealth Protection MD). These techniques are appropriate for less than 1% of the population. It is okay if they sound strange to you at first. They should. Once you embrace that you are different and you require "different" planning than your neighbors, you will be on your way to financial freedom.

A COUPLE OF MISTAKES MANY PHYSICIANS MAKE BY LISTENING TO BAD ADVICE INCLUDE:

Mistake #1

Listening to a CPA or Attorney who says "You Don't Need a Corporation for Your Medical Practice." Despite what the CPA says, in most cases the cost and aggravation of the corporation are far outweighed by the asset protection and tax benefits the corporation offers physicians. These are outside the scope of this brief article, but are covered in our new book, For Doctors Only.

Mistake #2

Owing Any Assets in Your Own Name or Jointly with Your Spouse or in Your Spouse's Name! We know that this is the most common ownership structure for real estate and bank accounts. This is ok for 90% of Americans. You have potential lawsuit risk, probate fee liability, and estate tax risk. If you don't want to unnecessarily lose assets to lawsuits or taxes, you need to consider alternative ownership structures. Something as simple as a living trust or a limited liability company can often solve these problems.

These two mistakes above are commonly addressed by savvy advisors and concerned doctors. The rest of this article and the second part of the article will share three additional mistakes doctors make when they rely on planning that is appropriate for Average Americans – not planning that is beneficial to doctors who have unique needs, circumstances and goals.

Mistake #1 – Wasting Time and Money on Retirement Plans

This is perhaps the single most important area of planning for doctors to address once they understand that they are NOT AVERAGE. Typical retirement plans are great for rank-and-file employees. They are forced to put away funds for retirement. Their employers may match some percentage of those funds. The money grows for them and then is available after age 59½. When they pass away, there may be a very modest amount remaining, if any, for their heirs.

As "the employer," you are responsible for those matching contributions. These can be very significant if you have a large employee base. You are also the person who will be responsible (in other words, liable) if employees do not get the proper allocations or contributions from your practice. Even if the plan administrator made a mistake, you ultimately may feel the wrath of the Department of Labor if your employees are not fairly treated by the plan. Further, a hypothetical \$40,000 per year of pension contributions from ages 35 through 60 growing at 7% will only be worth \$2,000,000 at retirement at age 60. This may lead to lifetime income of \$12,000- \$15,000 (pre-tax per month). If you factor in inflation, this income may only be worth \$6,000 to \$8,000 pre-tax in today's dollars if you are young physician. How many 35-year-old doctors do you know who could retire on \$3,000 to \$6,000 per month after taxes? Of course, you can't live on that little in retirement. So, you need supplemental planning to reach the retirement level you desire.

There is another problem. Let's say that you accumulate sig-

nificant non-pension assets and these assets are enough to support your quality of life in retirement. It is not unusual for a physician family to also accumulate \$1 or \$2 million of retirement plan assets that they will not spend during their lifetime. When you pass away, these plan assets can be taxed at income tax and estate tax rates. It is possible, in some states, for this "double tax" to be 70% to 80%. In other words, if your family doesn't use this asset, they'll lose it. I am sure you didn't pay all that money to fund your employees' retirement plan and to have it managed only to lose 70% of it to taxes at death. This is yet another problem with traditional retirement planning that doesn't impact Average Americans.

Suggestion #2 – Do Not Rely on Traditional Retirement Planning to Support Your Retirement.

Non-traditional, non-qualified planning can offer higher income physicians opportunities to put away more annually. In addition, these plans can be much more discriminatory than traditional qualified plans. Whether you are using an executive benefit plan for doctors only or a captive insurance company, you could possibly deduct \$100,000 to \$1,200,000 annually. You won't be subject to any Department of Labor scrutiny as these plans are not subject to these regulations. Further, you will have access to the funds before 59? if you like, you will not be forced to take withdrawals at age 70? if you don't need the money, and these plans will not be taxed at rates up to 70 or 80% when you pass away.

Non-traditional, non-qualified plans vary significantly in their design, their scope and their applicability. Some plans work great for smaller practices with one or two partners. Others work best in practices with 3 to 20 partners. Still others may work best for the larger practices. To determine which one is right for you, contact a specialist in advanced planning for professionals. If you do not know someone in your area that specializes in non-traditional planning for physicians, please contact the authors and they will try to introduce you to someone in your area.

Don't Miss Part 2 of this Article

This is the first of a two-part article. More tips on tax reduction and other elements of financial planning that are specific to physicians and unnecessary for Average Americans will come in the May edition of *San Antonio Medicine*.

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For Doctors Only: A Guide to Working Less and Building More is available FREE to BCMS member physicians (+ \$8 shipping and handling) by calling (800) 554-7233. ☉

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