



FINANCIAL PLANNING GUIDE FOR MEDICAL PROFESSIONALS

As a medical professional, you're one of the hardest workers in the world. You deal with long hours, hectic schedules, emergency consultations, and surgeries. You dedicate a lot of time and energy to your work each week. You might feel financially secure as a doctor, nurse, or physician's assistant. Still, you might not have adequate time in your busy schedule to dedicate to financial planning.

It's also worth considering that while medical professionals are top earners, they tend to start with more debt than most Americans. **Forbes reported a finding from the Association of American Medical Colleges (AAMC)** that the median medical school debt among the class of 2021 was \$200,000 (not including undergraduate debt.)

Financial planning is essential for every medical professional and it's never too early to start.

In this guide, we'll touch on financial planning for doctors and all medical professionals. The financial planning tips that we'll cover are:

- When to start paying off medical school debt
- The tax-planning advantages that financial planning offers
- How to understand different retirement planning options
- Why medical malpractice insurance matters
- The importance of choosing a financial advisor for medical professionals



Paying Off Medical School Debt

Being a medical professional is rewarding but also takes a lot of hard work and medical school is costly. The American University School of Medicine (AUSOMA) reported that **the average cost** of attending private or public medical schools for four years ranges from \$150,000-\$400,000.

Most people take out student loans because these costs are so hard to cover. We recommend you take charge of your finances at an early stage. The professional life of a doctor or medical professional starts at the time of their medical internship.

According to Indeed, **the average medical intern salary** in the United States is \$34,078. Zippia, on the other hand, reported in 2022 that the average medical intern wage is **\$50,843 a year**. A medical professional's earning potential only increases from here.

The mistake that many medical professionals make is only taking their debt seriously once they reach their financial prime. The longer you wait to pay off medical school debt, the more interest accrues, and the harder it becomes to manage. Starting early in your career, and making even small payments, will help reduce the overall cost of a loan.



Tax-Planning Advantages

As a high earner, tax planning can reduce your tax liabilities, but it also helps you create tax-free or tax-favorable income when you retire.

To determine the best tax strategies, a financial planner can help you with the following:

- Diversifying your investments by looking at your tax-deferred, tax-favored, and taxable accounts
- Planning ways to reduce your taxable income
- Reducing taxable income if you're an independent physician who receives a 1099 form instead of a W2
- Reducing how much you owe in taxes
- Creating a long-term financial plan that will allow you to keep more income for yourself throughout your career and during your retirement

Estates also fall victim to high tax reductions. Our financial advisors can walk you through ways to **reduce federal estate taxes** to ensure your beneficiaries take advantage of accruing more generational wealth.

Retirement Planning for Doctors

You should live your best life in the present and take that dream vacation, but regardless of how much you earn, we recommend that you save and invest for the future. If your goal is to retire and **stop working in your late 60s**, having retirement goals and suitable investments is necessary.



According to Investopedia, Senator Elizabeth Warren **popularized the 50-20-30 budget rule** in her book *All Your Worth: The Ultimate Lifetime Money Plan*. The rule states that you should split your net salary into 50% of the things you need, 30% of what you want, and 20% on savings.

This straightforward rule of thumb can help you meet your financial goals, but you should also consider options such as a 401K plan, an individual retirement account (IRA), exchange-traded funds, bonds, and stocks to plan your retirement.

Our **retirement bucket strategy**, known as The Bucket Plan® Philosophy, can help you understand how to invest and plan for retirement while avoiding unnecessarily risky investment pitfalls.

It's also worth noting that doctors have unique retirement options, such as:

- 403(b) plans
- 457 plans
- Sep-IRA and solo (401k) plans

Let's break down each of these plans.





What is a 403 (b) Plan?

You might have heard that 403(b) plans benefit employees who work at public schools and other tax-exempt organizations. A 403(b) plan also serves as an advantage to medical professionals who work at public hospitals. Like the 401(k) plan, it allows you to save money for retirement through payroll deductions.

The core difference between a 401(k) and 403(b) plan is that 401(k) plans are for "for-profit" businesses. The IRS states that **the maximum contributions** to a 403(b) plan is \$22,500 for 2023. The contributions to 403(b) plans are also tax deductible.

Another benefit is that most employers add contribution matches. For example, if you say that you want 4% taken out of your paycheck every two weeks, an employer might add a 4% match, meaning that the equivalent of 8% of your earnings will go into your 403(b) account and increase over time.

403(b) retirement plans also have a "rollover" benefit. You can still keep your 403(b) plan when you leave a job and move on to the next.

What's the Difference Between a 457 and a 403(b) Plan?

A 457 plan applies to state or local government employees or anyone who works at a tax-exempt non-profit. A 457 and 403(b) plan are very similar but nuanced.

Both policies allow you to make catch-up contributions as high as \$6,500 per year when you're 50 and over. However, with a 403(b) plan, if you have 15 years of tenure, you can add up to an additional \$3,000 per year. The maximum amount of extra payments you can add is \$15,000 for your entire employment with that employer.

Since your job might offer you both options as a medical professional, you should know that:

- Many 403(b) plans have protection under the Employee Retirement Income Security (ERISA) Act (your retirement savings cannot be seized in bankruptcy, through civil lawsuits, or creditors to whom you owe money)
- The ERISA doesn't govern 457 plans
- In a 457 plan, you can withdraw funds at any age if you leave the employer with whom you have the plan
- With a 403(b), you'll receive a 10% tax penalty if you withdraw money before 59 1/2
- It's easier to take out a "hardship withdrawal" for an unforeseen emergency with a 403(b) plan versus a 457 plan
- An employer can add on top of your \$20,500 contribution with a 403(b) plan
- For a 457 plan, the contributions max out at \$20,500 for employee and employer contributions
- Employers are less likely to match a 457 plan

Sep IRA and Solo (401) K Plan

These plans apply to you if you're a self-employed physician with a private practice. A Sep IRA plan follows the traditional IRA tax rules, such as a 10% penalty tax if you take out withdrawals before 59 1/2. However, the yearly contribution limit in 2022 is 25% of an employee's paycheck or \$61,000, whichever is less.

A Solo 401(k) plan sometimes goes by the "one-participant 401(k)" because this applies to independent doctors or physicians that don't have any employees. The Solo 401(k) benefits individuals versus a business. This plan also allows you to make those additional catch-up contributions when you're 50+.

Having an IRA plan is one of many ways to generate wealth for decades. It's effortless because it comes out of your paycheck automatically. IRA plans can be confusing and come with too many stipulations to count. But our team can walk you through which retirement plan is best for your financial goals.





Why Medical Malpractice Insurance Matters

Part of remaining financially secure includes insurance. Everyone needs different types of insurance, whether medical, life, or disability. But physicians are unique because they need the right coverage to protect them from malpractice claims.

Malpractice insurance, or professional liability insurance, protects you if a patient accuses you of malpractice by providing the following:

- Legal representation
- Liability and supplemental coverage
- Payment for lost earnings if you have to miss work because of legal proceedings

You might be thinking two things:

- "I'm an excellent medical provider who would never harm my patients."
- "What does this have to do with financial planning?"

Unfortunately, the American Medical Association reported that **1 in 3 physicians** had been sued by age 55. Even when patients dropped these cases, defense costs were an average of \$30,000. Malpractice insurance ensures that you don't have to pay these costs out of pocket and put your financial stability in jeopardy. Fortunately, you can protect your income by having the right insurance plan to account for the unknowns of the future.

Choosing a Financial Advisor for Medical Professionals

According to US Bank, **1 in 5 doctors** are behind on financial planning. Many physicians say they are on track with their financial planning, but not all feel confident about retiring.

We want to help you feel confident in your finances and we understand your unique needs as a medical professional. We know it can be hard to plan your finances, spend time with friends and family, focus on personal growth and work a demanding job. A challenging schedule can take away the time and energy you need to plan and strategize how to invest or save money. A financial advisor can help you make the process less taxing.

While it is excellent to start financial planning early, there is always time to begin your journey to financial security. Wherever you are in your financial journey, we want to help.



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