SPECTRUM WEALTH

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Medical Professional Advice

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Introd

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Medical professionals are very familiar with life-defining decisions. Doctors, specialists and surgeons make them on a regular, if not daily, basis. Critically ill patients place their fate in the capable hands of these modern day heroes, who must decide how to best respond. In doing so they carefully consider all the variables, consult with their treatment team, and delegate with confidence.

> *A tailored financial plan is crucial*

This regimen gives medical professionals a head start when it comes to wealth maximization. They are among the highest-earners in Australia. However, large salaries carry the burden of disproportionately large tax bills, which can severely impact the individual's asset pool.

A tailored financial plan is crucial to optimizing all those decades of study, punishing hours, pressure and emotional strain. Just as they do when making decisions on the job, medical professionals must give their financial situation close thought, while welcoming advice and trusting other members of their team to help get the job done. These inherent proficiencies mean medical professionals are likely to be wiser and more successful when it comes to managing their financial affairs. They appreciate certain tasks require expertise and specialization

With its strong focus on high-worth individuals, Spectrum Wealth understands how the needs of doctors differ from other white-collar professionals, and what strategies can best reward them for their life defining-work.

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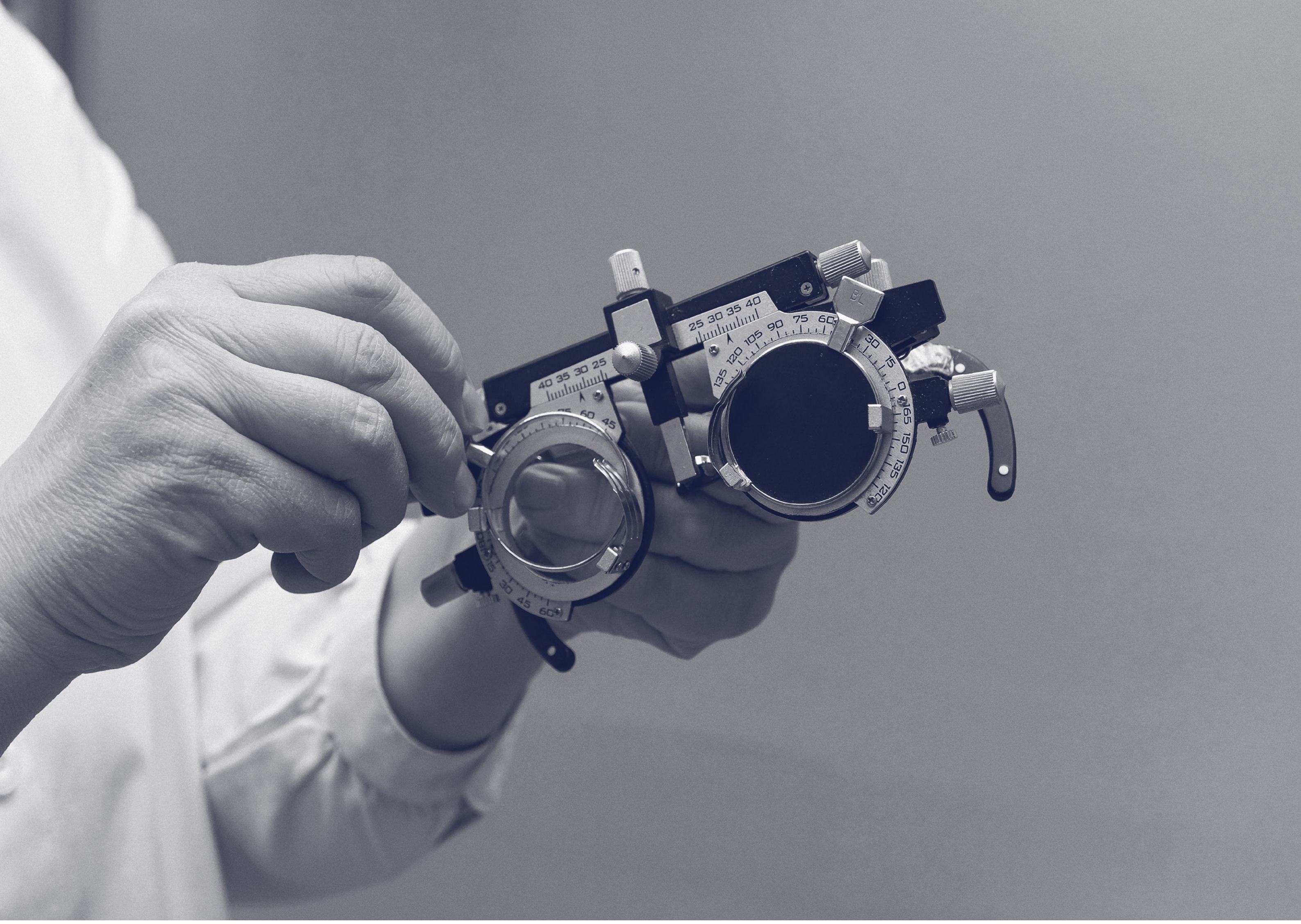
What makes doctors different

Delayed wealth creation

Young doctors with friends in the legal or banking sectors might have noticed they are not on equal footing when it comes to early wealth creation. Doctors traditionally commit to many more years of study and work placement to earn their qualifications. While their professional colleagues can rapidly earn and build wealth upon entering the workforce, doctors begin with the double handicap of minimal wages and higher education debt. While this is unavoidable, it can be remedied, over time, with early and decisive planning.



Greater stability and earning capacity

As they push beyond their first few years, doctors quickly make up financial ground on their professional peers. Over the long run, they can eclipse them comfortably. Doctors enjoy higher earning potential, with the added bonus of relatively excellent job security. This powerful combination makes a doctor's future earning capacity his or her most valuable asset. It should therefore be protected at all costs

Limited business value

A doctor's private practice is not like other small businesses such as a restaurant or hotel, whose goodwill is independent of the proprietor. Should a doctor establish a thriving practice, its market value won't necessarily reflect that success. That's because its most important asset – the doctor/proprietor – is rarely part of the transaction. For this reason, doctors who own their practice should rely on more than business goodwill to build wealth as they approach retirement.

High exposure to litigation

For all their dedication to the health and wellbeing of our community, doctors are exposed to incredible liability each time they treat a patient in private practice. The medical profession has not been spared from the rise of litigation in Australia. There is no shortage of lawyers who specialize in medical negligence, and lawsuits are a very real risk, especially when the plaintiff has high, if not unrealistic, expectations of their procedure. Along with income protection, insurance safeguards against legal action should be a top priority for doctors seeking to create sustainable and stable wealth.

Long hours, longer career

Doctors are likely to work longer than others. Shifts can be arduous, extending for as long as required to provide the necessary treatment. Furthermore, a doctor's career is likely to persist well beyond the average retirement age, often motivated by admirable loyalty and commitment to their patients and community. This daily and career workload leaves little time to embark on the complex and specialized planning required to maximize and secure their hard-earned wealth. More than most professionals, doctors benefit from independent financial advice. Their high earnings and professional structure offer plentiful opportunities for maximization, something that requires time and expertise to achieve.

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Financial Solutions for Doctors

Tax Minimization

Once an Australian earns over $180,000 a year, their income tax rate tops out at almost 50 cents per dollar. Most doctors boast a salary that sits comfortably within this eye-watering tax bracket. This substantially diminishes the financial reward the market has deemed equitable for the critical work they perform.

Minimizing this significant tax exposure is crucial. Deductions are available for interest paid on income generating debt, such as bank loans for investment properties or shares.

The early and continual accumulation of assets that generate passive income streams also put the doctor in a better position reduce their work, or even retire early, thus addressing the risks of litigation or incapacitation at virtually no cost.

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Income Protection

While some consultations can be performed remotely, the majority of a medical professional's day-to-day work is hands-on. That means a doctor's essential tool of the trade is . . . none other him or herself! Any accident or illness that prevents a private physician form working can have serious consequences for their long term wealth as it directly threatens their most valuable asset: their high future earning potential.

This is why an income protection strategy is so vital.

4 Case Studies

1 Situation

James is a successful dentist, running his own practice and earning upwards of $500,000 a year. James has income protection insurance, which he purchased himself on a strict budget almost a decade ago. Since then, he has not reviewed his policy. He is simply too busy with work a to do anything but ensure the annual policy renewal is paid.

During his rare time off, James enjoys skiing. Unfortunately, on his last trip to the snow James suffered a serious fall and fractured his spine. He was left paralysed in both arms. James faces a long and uncertain rehabilitation, until he might be able to resume full-time work again.

Challenges

Apart from continuing to pay his income, what things would James want to have covered by his insurance?

Overheads for his practice, including the rent, disbursements and wages for a replacement dentist would be desirable. While James' personal salary might be taken care of, the practice he worked so hard to build could quickly collapse without adequate staffing and resources to care for his patients.

If his practice is to continue to function during his rehabilitation, James needs to have some general oversight, if only to guide and train new staff. Unfortunately, many policies require the holder to perform no work whatsoever in order to receive their full monthly benefit. An experienced financial advisor would be aware of selected products which offer a '10 hour rule', giving medical professionals the right to work 10 hours a week without any impact on their benefit.

There is a possibility James will be unable to work as a dentist again. Because his skills are so specialized, it is advisable any insurance covers a Total and Permanent Disability (TPD) that prevents James from performing his previous occupation in the future. Most generic products only cover 'any' occupation, meaning that if James was still able to work as dentistry lecturer, or administrator, he might be denied a TDP lump sum

Actions

Trust Creation

As we have discussed, legal action threatens an honest doctor's reputation, as well as their livelihood. A large damages order could result in the doctor losing his or her entire practice, obliterating hard-won goodwill, not to mention the jobs of others employed by the business.

A wise way of avoiding such a devastating outcome is to transfer the practice into a trust, where it is safe from legal consequences that might stem from an individual's negligence. This is a complex process, which requires a financial advisor who is well versed in the appropriate field.

Self-Managed Super Fund (SMSF)

Complimenting a tax minimization strategy is the creation of a Self Managed Super Fund (SMSF). An SMSF opens to the door to multiple tax discounts during the accumulation phase, including 15 percent income tax and 10 percent Capital Gains Tax (CGT), for investment properties sold more than one year after purchase. During the pension phase, the tax rate is even more attractive – zero for income and CGT. Assets such as properties and shares that are held in an SMSF also have greater protection from creditors, a consideration for doctors given their exposure to damaging litigation.

2 Situation

Barbara owns a long-running and successful medical practice in a country town, worth $300,000. She rents consulting rooms to three other doctors who work from the practice, for a combined annual rent of $20,000. Barbara has an SMSF, which current manages $900,000 worth of liquid assets via a specifically created company, including cash and shares.

A medical colleague has suggested that Barbara consider transferring her practice into the SMSF. Barbara turns to a financial advisor for guidance.

Challenges

The process of transferring the practice involves Barabra selling it to her SMSF at a fair market rate. The SMSF would then charge her and the other doctors working from the practice rent, also deemed at a fair market rate. The transfer would most likely involve the payment of CGT, and also stamp duty. However, these levies can be significantly reduced through the help of Barbara's advisor, who has overseen similar transfers in the past, and has access to the appropriate accounting resources. Barbara's advisor is also mindful that her SMSF needs to have adequate liquidity after purchasing the practice, to meet its ongoing overheads and as well as its own financial responsibilities.

There are numerous options for the SMSF to purchase the practice: through its own cash reserves, a one-off contribution from Barbara (maximum $540,000), or a bank loan. Barbara’s financial advisor will closely look at her personal plan before deciding which fits best.

The next step is to meet her advisor to discuss the pros and cons:

Pros:

- The overall rent that Barbara and her co-tenants is taxed at just 15 percent during the accumulation phase of the SMSF, and nil once Barbara begins drawing a pension (anytime from 55 years onwards).
- The practice could be exempt from CGT should Barbara decide to sell it after retirement.
- Held within the SMSF, the practice is protected from creditors, who could seek to claim and liquefy the asset in the event of her being ordered to pay damages for medical negligence.

Cons:

- All commercial agreements, including rent and dealings with service providers, must be done at market rates. ASIC is renowned for giving closer scrutiny to doctors' practices held by SMSFs, so this requirement must be strictly adhered to.
- If the SMSF purchases the practice via a bank loan, the interest charged will be higher than a residential purchase, as the bank can only reclaim the practice as collateral. All other assets held in the SMSF are off-limits.

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Medical practice requires a special brand of precision, expertise and judgment. Similarly, the management of a doctor's financial affairs calls for a unique skill set, one that's familiar with the profession's earning potential, risks, and traditional asset base. Doctors should seek financial advice from practitioners with a demonstrated history of working with their peers. Spectrum Wealth has experienced great success working with medical professionals; empowering them with knowledge and options to maximize their wealth.

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