

# Financial Planning for Family Physicians



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FAMILY PHYSICIANS  
FOUNDATION

## Midwest Trust and FCI Advisors

- FCI Advisors manages assets for the AAFP Foundation
- Over 70 professionals who provide investment services for:
  - Institutions and individuals nationally
  - Over \$15 Billion in assets under management and custody
- Midwest Trust provides:
  - Estate Administration
  - Trust Administration
  - Financial & Retirement Planning Services
  - Custody Services

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## Financial Planning



Ongoing process to help you make sensible decisions about money and assets that can help you achieve your goals

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## What Keeps Financial Planners Up at Night?

- Interest Rates
- Social Security
- Increasing life expectancy
- Not saving enough money
- Spending too much money
- Not investing in a smart manner
- Not Preparing your estate plan

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## Why is planning different for Physicians?

### Cons

- Late Start – physicians typically begin saving 8 to 10 years later
- More debt (average school debt is \$183,000)
- More liability
- Less time to evaluate options and learn about finances

### Pros

- More income earned during career
- Good job security

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## Insurance



### Insure Human Capital

- Life and Disability

### Insure Assets

- Personal Umbrella Policy
- Malpractice
- Homeowners and Property Casualty
- Long-Term Care Insurance (later in life)

### Insure Business

- Key Person, Buy/Sell
- Property Casualty

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## Manage Your Debt

- When should you borrow?
- Protect Credit Score
- Student Loans (pay off early or, if possible, take advantage of other "Loan Forgiveness" or "Income Based Repayment" options)
- Credit Cards (pay off first)
- Cars (pay off early unless "sweetheart" rate)
- Home mortgage or home equity loans (**Deductible**)



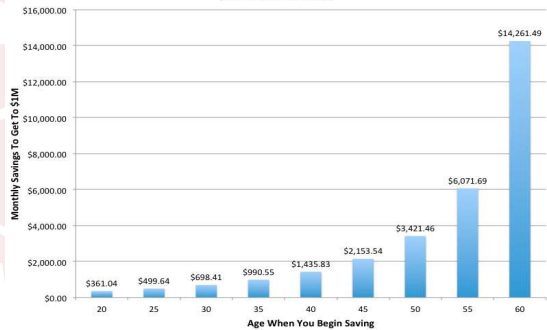
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## Saving and Spending

- The actions that you have the most control of
- Do not live beyond your means
  - Remember that you have retirement, debt and education expenses and less years to work
- Save as much as possible (after high interest non-deductible debt is paid off)
- Save in tax deferred accounts if possible but also in taxable accounts
- Compounding is a valuable ally (see charts on the next slide)

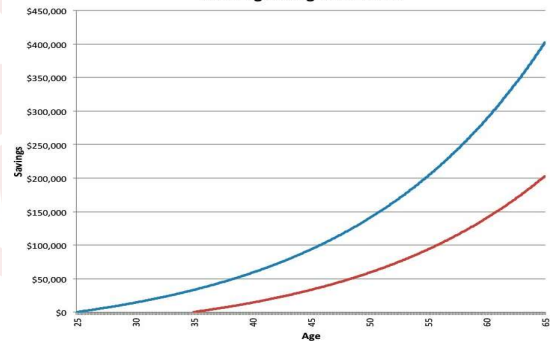
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How Much You Need To Save To Get To \$1M At Retirement (6% Return Rate)



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Starting Saving at 25 vs. 35



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## Children's Education

- Start saving as early as possible
  - <https://vanguard.wealthmsi.com/csp.php>
- Utilize 529 Plans in some cases
  - [savingforcollege.com](http://savingforcollege.com)
- Utilize Uniform Transfer to Minors accounts in some cases
  - More control until age of majority and no penalty if not used for college
- Do not sacrifice your retirement for their college costs
- It is OK for your children to borrow like you probably did



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## Retirement Planning

- Utilize Retirement Plans
  - IRA's, 401(k)'s, 403(b)'s, SEP IRA's, SIMPLE IRA's etc.
  - They provide pre-tax savings and tax deferred growth
  - They may also provide for employer matching contributions
- Save at least 10% of earnings and possibly 15%. Max out if possible
- For younger Physicians the Roth IRA is also attractive depending on income level. The available phases out at higher income levels.



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## Retirement Planning

### – Four Biggest Fears of Retirees Today

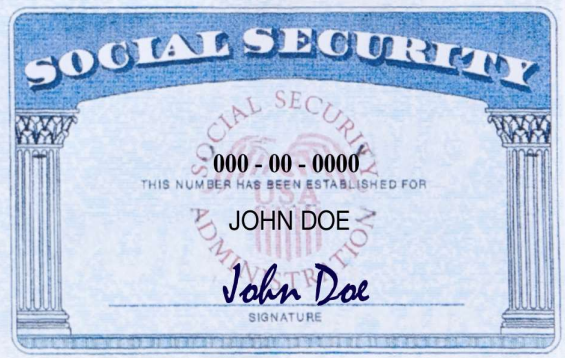
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## How Long Will You Live?

- Longer Life Expectancy
- 65 Year Old Couple
  - 80% chance that at least one lives to age 85
  - 55% chance that at least one lives to age 90
  - 25% chance that at least one lives to age 95

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## Social Security



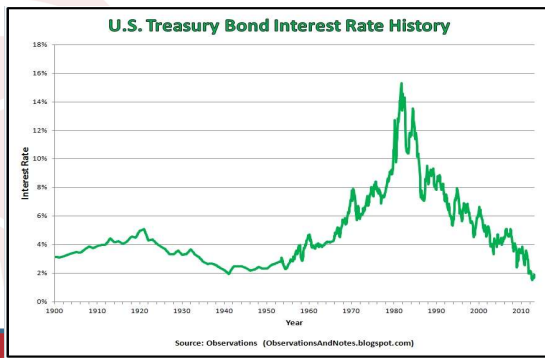
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## Social Security Analysis

Take advantage of all of the options

- Spousal Benefits
- File and Suspend
- File Restricted Application

## Low Interest Rates



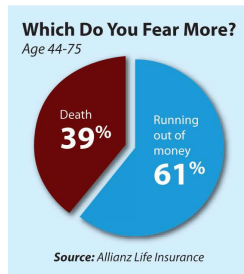
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## Low Rates Provide Challenges

- The 4% rule doesn't always work
- Stock dividends may be needed
- Be careful of rising rates with bonds
- Stay flexible – Don't lock into long term contracts

## Will I Run Out of Money?

- How much can I spend?
- How long will it last?



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## Approaching Retirement

- As Retirement Approaches (**Red Zone**)
  - Understand Social Security Options
  - Understand how to monetize savings into a paycheck
  - How should you withdraw assets to minimize taxes
- Have Cash Flow Plan prepared to account for:
  - Your spending estimate
    - Most retirees go through 3 phases: **Go Go** years, **Slow Go** years and
    - **No Go** years.
  - Inflation
  - Longevity

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## Estate Planning



- General Durable Power of Attorney (*Everyone needs*)
- Healthcare Power of Attorney (*Everyone needs*)
- Health Care Directive or Living Will (*Everyone needs*)
- Will (*Everyone needs. Guardians named for minor children*)
- Revocable Trust (*Optional*)

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## Investments

- Determine Tolerance for Short-Term Risk
- Determine Objective
  - Income or growth
  - Taxable or tax free income
  - Time-frame before assets will be needed
- Determine What Types of Securities to Own
  - Stocks, bonds, mutual funds, exchange traded funds
- Determine Asset Allocation
  - How much in each different asset class

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## Asset Allocation and Risk

The next slide shows historical returns with "worst case" volatility for different mixes of stocks and bonds for the last 65 years

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ASSET ALLOCATION - RISK & REWARD												
One Year Returns January 1950 - June 2017												
World Return	Average Return	Best Return	Portfolio Mix	Total Return 2017	Worst Return	Average Return	Best Return	Percent Exceeding	Percent Exceeding	Percent Exceeding	Return	
-42.3%	12.4%	61.2%	Stocks	17.9%	-43.3%	-11.0%	12.4%	16.6%	61.2%	21%	79%	73%
-38.5%	11.8%	57.3%	Stocks 90% Bonds 10%	16.0%	-38.5%	-6.7%	11.8%	17.3%	57.3%	26%	80%	73%
-33.6%	11.1%	53.4%	Stocks 80% Bonds 20%	14.1%	-33.6%	-4.4%	11.1%	15.7%	53.4%	19%	81%	74%
-28.6%	10.4%	49.5%	Stocks 70% Bonds 30%	12.2%	-28.6%	-7.2%	10.4%	14.2%	49.5%	18%	82%	74%
-23.6%	9.7%	45.7%	Stocks 60% Bonds 40%	10.2%	-23.6%	-6.0%	9.6%	12.7%	45.7%	16%	84%	74%
-18.6%	9.0%	41.8%	Stocks 50% Bonds 50%	8.2%	-18.1%	-4.7%	9.1%	11.3%	41.8%	14%	86%	73%
-13.6%	8.3%	37.9%	Stocks 40% Bonds 60%	6.4%	-14.2%	-3.6%	8.5%	9.9%	37.9%	11%	89%	73%
-8.6%	7.6%	34.0%	Stocks 30% Bonds 70%	4.6%	-9.4%	-2.4%	7.9%	8.0%	34.0%	7%	93%	74%
-3.6%	7.1%	30.1%	Stocks 20% Bonds 80%	2.8%	-4.7%	-1.3%	7.1%	7.5%	30.1%	4%	96%	76%
-1.7%	6.5%	26.7%	Stocks 10% Bonds 90%	0.7%	-2.3%	-0.9%	6.6%	6.6%	26.7%	2%	98%	74%
-0.2%	6.0%	23.0%	Bonds	-1.2%	-3.9%	-1.1%	5.8%	6.3%	23.0%	7%	93%	69%

The Consumer Price Index for June 2017 is preliminary.  
Data: Rolling 1 year returns using monthly data (176 observations)  
Stocks: Standard & Poor's 500 Stock Index - Bonds: Intermediate Treasury Bonds - Inflation: Consumer Price Index  
Source: Standard & Poor's Corporation, Ryan Labs, Inc., Merrill Lynch, Pierce, Fenner & Smith Inc., Bureau of Labor Statistics  
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## Diversification

- Build a portfolio with several different investment asset classes and strategies that complement each other.
- There's no perfect way to completely hedge the downside of the markets while also enjoying all of the upside.
- Isn't about fully insulating your portfolio in the short term.
- Can help periodically in the short term, but it's really a long term strategy.
- Do not panic or abandon the plan during turbulent times.
- Diversification works but its best suited for the long-term investor.

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## Why Diversify the Portfolio?

1. Risk management technique to investing
2. Mixes a wide variety of investments within a portfolio
3. Protection from terrible results over long time horizons
4. Smooths out year-to-year returns
5. A portfolio of different kinds of investments will, on average
  - o Yield higher returns
  - o Provide lower risk (volatility)
6. Will hold true only if the asset classes in the portfolio are not highly correlated



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## How Will Assets Be Managed?

- Do it yourself
- Employ a Broker
  - Works on commissions
  - Be cautious of objectivity of advice
- Employ a Financial Planner
  - Do they charge for plans only or for asset management as well?
- Employ an Investment Manager
  - How do they charge for their services

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## Monitor Plan to Make Mid-Course Corrections

- All planning requires assumptions about
  - Interest rates
  - Growth on investments
  - Longevity
  - Spending
  - Inflation
  - Taxes
- These assumptions need to be updated periodically

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## Questions?

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## Contacts:

Dionne Lewis - Donor Development Strategist  
[dlewis@aaafp.com](mailto:dlewis@aaafp.com)  
800-274-2237, ext. 4408

Phil Heffley, CFP - Senior Vice President  
[phil.heffley@midwesttrust.com](mailto:phil.heffley@midwesttrust.com)  
888-696-0100, ext. 317



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