The Most Unsettling Trends Facing Physicians: What to Expect and What to Do Today

The right approaches to financial planning can help protect and grow a physician's assets, even as troubling trends persist.

BY BRIAN LUSTER AND STEVEN ABERNATHY

The Physician Family Office recently completed a study confirming what we all know to be true: reimbursement is falling while the costs of operating a practice are rising. Several unsettling trends facing physicians are expected to continue over the next two decades. The approaching trends in the healthcare system directly affect how physicians manage their practices and their wealth.

According to a recent Fee Schedule Survey from *Physicians Practice*, Medicare's new patient code reimbursement rates fell an average of 33 percent over the past five years. In addition, the latest Medical Malpractice Insurance Survey on Medical Liability conducted by Mutual of New York shows dramatic increases in malpractice insurance rates across the board: they rose 54 percent for OB/GYNs, 54 percent for internal medicine, and an astounding 70 percent for general surgeons. Meanwhile, the National Practitioner Data Bank shows litigation rising significantly over the past two decades.

The cost of resolving this litigation has risen 66 percent, with the average cost of resolving malpractice suits approximating $330,000—75 percent more than the median primary care physician earns in an entire year, according to the 2011 Medical Group Management Association's Physician Compensation and Production Survey. Physicians must now see more patients and perform more procedures, just to maintain their current income level. Additionally, one of physicians' key assets, the value of their medical practices, has fallen significantly. Physicians are working more and earning less. In last year's Great American Physician Survey entitled, "The State of America's Doctors: Happy, Content, Nervous," conducted by Physicians Practice, results showed that one of every two physicians working today is planning on postponing retirement.

"A lot can happen, and no one attains mastery of business management and wealth management skills, including portfolio management, legal asset protection, and estate planning, in medical school," says Physician Family Office Advisory Board Member Dr. Steven Almany, an interventional cardiologist and partner of the Michigan Heart Group.

So with all of these challenges, how can medical doctors avoid common financial pitfalls? It turns out that for many physicians, the choices made outside of the practice of medicine are responsible for their failure to realize their full wealth potential. Today, the average MD with a specialty or subspecialty makes approximately $350,000. If s/he can save just 25 percent of his/her annual income, by the time s/he is 60, there should be over $7 million saved for retirement. Sounds easy enough, but this is an outcome that few are able to realize.

THE TROUBLING TRENDS

Here are what we found to be the six most unsettling trends among medical doctors—and how to successfully avoid them:

Successful physicians are failing to integrate their advisors. Typically, a physician surrounds him/herself with financial advisors, brokers, an accountant, an estate-planning attorney, an insurance agent, a tax-planning attorney, and

TAKE HOME TIPS

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many others. If each one is not communicating with the other before dispensing advice, chances are their advice will either negate the effects of the other's, or they will give counsel that will actually destroy wealth.

Solution: Streamlining teams will help avoid costly mistakes. Family offices are structured to create oversight and partner with members. All decisions made must, by law, be in members' best interests, so teams should consider every vantage point for advisors to be integrated, in communication, and working toward common and clearly defined objectives.

Less than one percent of all financial advisors are acting as a fiduciary. This alarming fact comes directly from the National Association of Personal Financial Advisors. In most instances, advisors are adversaries, legally obligated to hold their employers' financial interests ahead of their clients'. Perhaps this is why there were more than 3,200 investor complaints and nearly 5,000 new arbitration cases against brokerage firms in 2011, according to CEG Worldwide LLC; this means that there are 23 new complaints and arbitration cases reported every day. In addition, often buried in the fine print of legal jargon on standard non-fiduciary agreements, people are advised: "Our interests may not always be the same as yours." So, unless doctors have reviewed literally all of the lines with an attorney or other fiduciary who will act in their best interest, it is highly likely that they will be wasting money.

Solution: Have advisors sign a fiduciary oath, which assures, in writing, their actions will be aligned with yours and they will prioritize wealth interests and goals ahead of their own.

Seeking counsel from salespeople. Even if you found one of the 2,500 US advisors upheld to the fiduciary standard, what are the chances that his/her advice is of any value? It is actually quite low. The problem is that most of advisors are not experts; they are salespeople or relationship managers.

Solution: Seek out professionals who have been managing funds (in addition to individual client accounts) with audited track records, for at least a decade, with proven results. These advisors should have a client base similar to you so your needs are best served.

Taking on too much portfolio risk. The concept of "keeping up" with the stock market is a Wall Street myth. While the stock market has averaged seven percent per year for the past 140 years, the median investor expected to earn between 10 percent and 33 percent during the past decade; yet, the median stock fund investor only earned 1.9 percent, according to Securities Industry and Financial Markets Association Annual SIA Investor Survey: Attitudes Toward the Securities Industry.

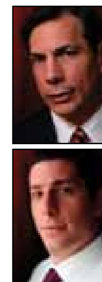
Solution: Investors should take on only as much risk as they need to meet their goals. Unfortunately for your advisor, this means fewer commissions and fewer fees.

Lack of education among heirs about preserving wealth. Sixty percent of wealth is destroyed in two generations, while 90 percent of all family wealth is destroyed in three generations, according to The Family Business Institute. William Vanderbilt left his heirs the equivalent of $4.8 billion (in current dollars), yet not one ranks among America's most affluent today.

Solution: Begin educating your children about money management, wealth, taxes, and financial responsibility early. As soon as your child has a grasp of basic arithmetic and can follow an adult conversation, it's time to start. Take time to explain the role of advisors, their strategies, and the lessons of capital budgeting, saving, and investing. Your heirs will receive the best lessons in responsibility and preserving an inheritance directly from you.

Not creating and living by a written budget and comprehensive financial plan. Articulate your families' goals and objectives, project cash flows into the future, and manage spending and your investments accordingly. Monitor progress against goals, and, as circumstances change, adapt your behaviors accordingly—even if this means sacrificing in the short-term or postponing retirement.

Solution: Have a clear, written budget. Review it and update it as needed. This is a step that many highly educated people avoid because they do not like the idea of "budgeting." Planning creates clarity; do not skip this vital practice. ■



Steven Abernathy and Brian Luster are physicians' advocates and founders of the first Physician Family Office in the US. The Physician Family Office sells no products, receives no commissions, and is independent, employee-owned, and governed by its Advisory Board, comprised entirely of thought-leading physicians. To learn more, visit www.physicianfamilyoffice.org.