Midcareer physicians: What should be on your financial radar now

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Investment markets rise and fall unpredictably in an unstable financial market driven by the COVID-19 pandemic, but don't panic. Midcareer physicians may build investment and retirement portfolios that are safe and productive despite variable and sometimes frightening conditions.

"Time is still on their side," said Mike Hegwood, who is director of brokerage marketing at AMA Insurance, an AMA subsidiary committed to helping physicians protect their finances and their assets. AMA Insurance offers life, disability, home, and auto insurance and provides access to other financial services products through Millennium Brokerage Group LLC, a strategic marketing partner of AMA Insurance.

"A midcareer doctor who has 10 or more years before considering retirement—and even now, at a time when the financial markets have retracted—there is a good prospect of a market rebound within that time frame," Hegwood said.

"Since the Great Depression, the stock market has grown an average of 10% annually, before inflation, despite downturns for several recessions," Hegwood noted. But that average is derived over a long period. In the short term, returns can fluctuate considerably—and depending on the year, performance can be much better than the average, or much worse.

Assess your risk tolerance

As a result, it's important that midcareer doctors pay attention to how they allocate their investments and determine how much risk they can tolerate as the markets go up and own.

A "risk profile" is a very personal way to help determine how people should invest, Hegwood said, and is not the same for everyone. Young physicians of 40 and under may feel very secure riding the up-and-down waves of the market. After 50, doctor investors may be seeking a little more security and stability.

“Ask yourself how you would feel if you lost 20% of your holdings overnight? If that makes you anxious, you might dial back your risk profile,” he said.

Not all types of investments earn at the same rates. While the stock market has a long history of growth and tends to grow faster, it also can dive faster during downturns, so doctors may want to diversify with some allocation of fixed-income investments such as bonds or real estate or other kinds of investments.

Total earnings and their ups and downs is not the only consideration, Hegwood said. Taxes and how they will accrue also is a concern. With the government spending billions to resuscitate the economy, it’s becoming harder to fathom a scenario where taxes decline in the future. Retirement accounts such as 401(k) and 403(b) plans allow participants to accrue earnings over time with taxes deferred. But when those taxes come due at retirement, they could be much more than you expect.

How life insurance can help

Life insurance is not often considered an investment, but it can be a valuable component of a diversified portfolio, Hegwood said.

Life insurance that accrues a cash value can provide a pool of assets that create “living benefits” that can be used to pay bills or other expenses without disrupting growth of equity investments in traditional retirement accounts, and cash pulled from a life insurance policy is not subject to taxes at withdrawal. Life insurance can also be an effective tool used to address other life costs including medical expenses not covered by health insurance or long-term care costs for an individual or family members.

“Life insurance can provide a level of flexibility to your portfolio,” Hegwood said, and policy designs have evolved. Life insurance can provide guaranteed returns or accrue cash value balances based on variable investment funds.

Life insurance can also be the cornerstone of estate-planning, which Hegwood said should begin years before retirement.

Closer look at disability insurance

Individual disability insurance may also be a good consideration for midcareer doctors, if they don’t already have it, Hegwood said. Disability insurance pays a defined portion of income when illness or injury prevents an individual from working, usually up to about two-thirds of income.

Many employers pay for disability insurance for their employees, but Hegwood noted that employer-paid disability insurance typically pays out taxable benefits which can undermine its value.

Benefits paid from individual disability insurance are not traditionally considered taxable, if the insured pays the premium, and may be a suitable option for physician practices or group owners to consider, as a supplement to their employer-paid disability plans.

Understanding how these plans work together—and reviewing them to make sure you have the right amount of coverage is always important—especially during times like these.

“I know everyone wants to focus on their retirement savings right now,” Hegwood said. “That’s obviously important, but I’d encourage physicians to think more broadly and review all facets of their financial plan—including their insurance coverage.”

To stay on top of changing needs, Hegwood said, it is always a good idea to have a discussion with your financial adviser, who can help you assess your risk profile and pick investments that match it.

If you don’t have an adviser, you can find one with information from the Certified Financial Planners organization, Financial Industry Regulatory Authority or through the AMA Insurance Physicians Financial Partners program. The program provides access to a nationwide network of independent, local and experienced financial professionals who have undergone a comprehensive due-diligence process by AMA Insurance.