

Feature article

Financial "life" planning for dentists

When I graduated, I had a rough idea of what I wanted to do for the next few years. I continuously moved from one stage of life into the next. From graduating to finding the best practice for me to work in, buying a home, and starting a family. Then I was stuck! I had accumulated money but didn't know what to do with it. Fortunately, I attended a timely dental conference where a financial adviser presented. This particular lecture prompted me to take a 'deeper dive' into learning about investing. All of this research involved much time and energy. I became overwhelmed with this new information. I was paralysed with what to do. Eventually, I decided on an investment option. Yet as time passed, I realised I had made a mistake!

Financial advice usually consists of investment advice, including assessing your tolerance to risk, where to invest, and then the ideal products. This quantitative information is necessary, yet; it misses one crucial piece. YOU. It doesn't consider your values, upbringing, and attitude to money and life. The mistake I had made was I was so focused on the investing strategies that I hadn't looked at what was important to me. "Why" was I investing in the first place.

New research brings all this financial planning quantitative information and matches it with qualitative information.¹ This process is called financial "life" planning. It is the intersection of your life, values, and money (Figure 1).



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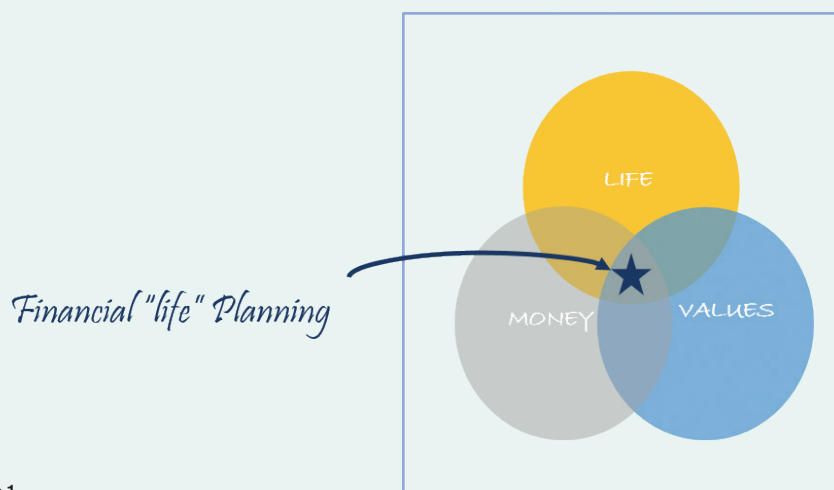


Figure 1



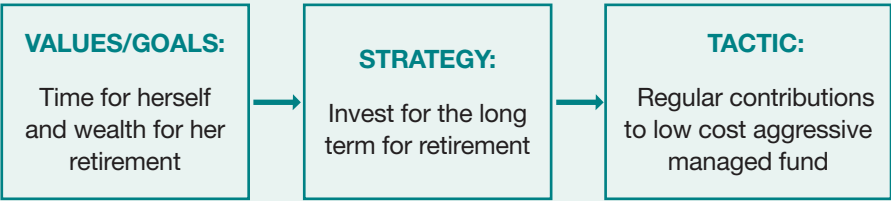
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Financial life planning takes a bird's eye view of what is important to "you" and then creates a framework to base your decisions. It is aligning the purpose of your money to your goals and plan. Thus linking your "Why" with your "How" and your "What" (Figure 2). Once your values are defined, the goals and how to achieve them become more specific. It creates more clarity with your financial decisions.



Figure 2: Values Framework

For example, I spoke to a young colleague who was unsure how to invest her money for her retirement. We uncovered that time was essential to her, which meant she had the freedom to choose what she did with her time for her well-being and family. These values lead her to a goal of investing in a hands-off matter (see below).



Notice how the tactic is more apparent once the value is acknowledged. We all have an inkling of our values; it is uncovering them to link them to our money and financial decisions. Studies have shown that when you have a purpose-based goal, you tend to have higher levels of satisfaction and well-being² and lower levels of anxiety and depression. You can also check to see if your goals fit your values are aligned in the right direction. Having a holiday on the credit card may be well deserved, but does it fit with your value of feeling secure. Yet this may follow your family value where you want to create memories for you and your children. So the question to ask is, "what is more important"—the holiday or the stress of paying it off? Or is there another option of having a cheaper holiday to fulfil the value of creating experiences? See how it becomes apparent that there is no wrong answer. It all depends on your values, and goals integrated with your finances.

The financial planning process also involves Life and Dental Professional Stages incorporated with Financial Stages and Life Events.

Life/Professional Stages

There are standard life stages that occur during an adult's lifetime. It generally commences from the beginning life stages of being single to a partner to a family, acquiring a home, to the middle life stages of paying down debt, building up investments, children leaving, and eventually to the later stages of transitioning to retirement and other interests (Figure 4).

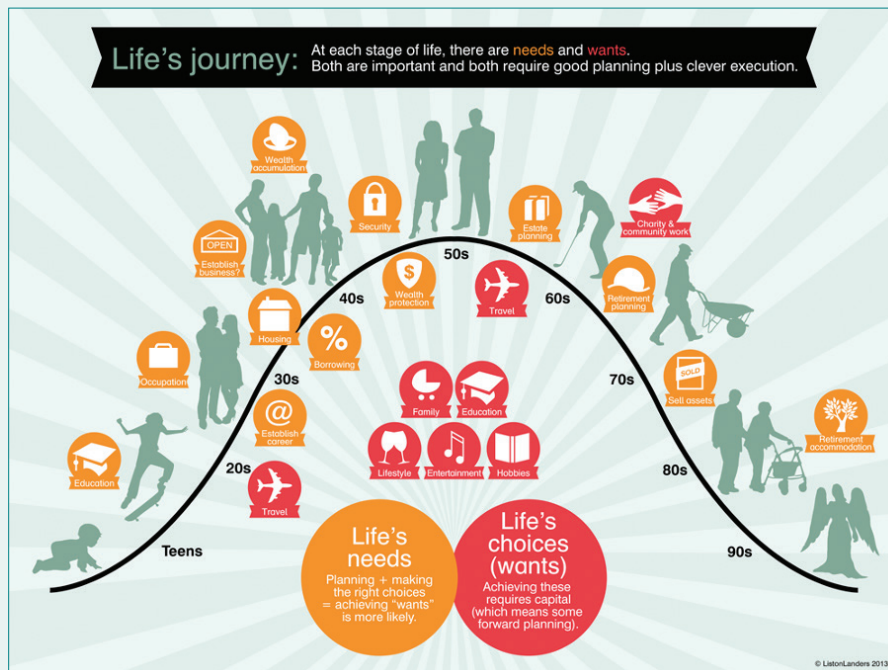
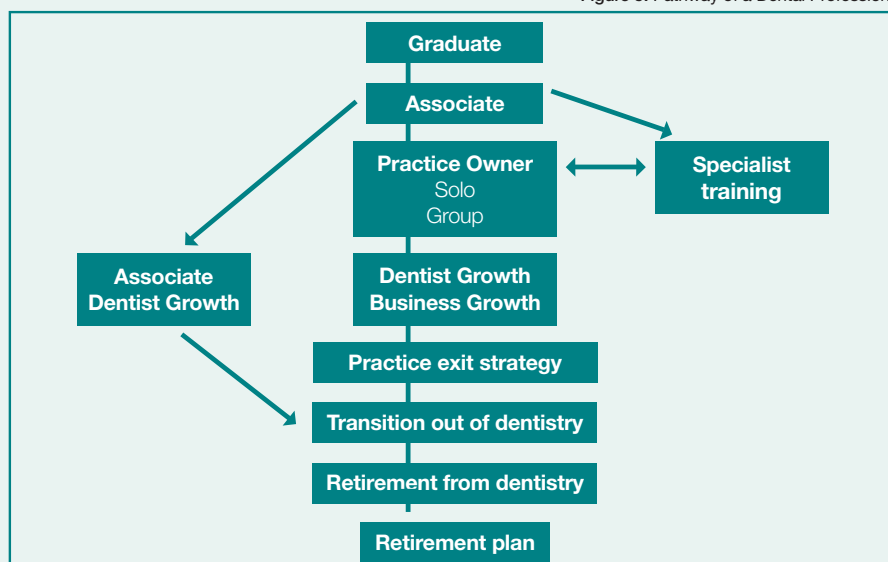


Figure 4: <http://www.colaistenamibusiness.com/personal-financial-life-cycle.html>

There are financial decisions to be made at each stage. These beginning/middle stages are spending for your life stage^a with balancing saving for your later life stage. At the same time, you are protecting against risks that could occur from health illness or sickness. For example, travelling in your 20-40s is different from travelling in your 70's. Yet it is balancing this life stage spending with saving for your retirement.

These generalised life stages are concurrent with the specific pathway of our dental professionals (Figure 5).

Figure 5: Pathway of a Dental Professional



^a Research has shown that happiness increases with buying experiences than items.

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Our professional pathway is unique to other health professionals due to our extended degree, high student loan debt levels, and early adoption of associate (contracted) positions. Furthermore, our dental practice set-up costs and running costs are high compared to other general health practitioners. Finally, the physical and emotional demands of dentistry can impact the general health of dentists.³

Typical financial planning questions for our profession can be:

- Where is the best place that I can work?
- Shall I buy a home first or practice?
- When should I buy a dental practice, and which type- start-up or existing and sole or group?
- Should I invest in the practice or outside the practice?
- When should I start saving for retirement?
- When can I leave dentistry? Can I change my career?

Financial stages

The main financial stages are the *accumulation* and *decumulation* phases of life. So this is building up wealth, (and protecting your risks) when you are practicing and then drawing down your wealth when you stop working (Figure 6).



Figure 6. Image courtesy of Tony Vidler.

As mentioned before, it is the balance of current spending versus future savings. For example, having limited savings for your current lifestyle would limit your retirement plans, yet having high savings amount may limit your experiences at your current life stage. I had a close family member work all his life for his retirement yet suddenly passed away in his early retirement, therefore sadly was unable to reap the benefit of his lifetime of hard work. You may have heard of colleagues who had high spending during their working life; however, they had not saved enough for the same lifestyle during their retirement. Thus it is determining the right balance for you.

During these stages, the leading financial planning questions are:

- Will I be ok?
- Am I on track to reach my financial goals?
- Can I accomplish the things I want to do with my money?
- How much do I want to leave for the next generation?

These life/professional stages incorporate the financial stages, which require different financial planning priorities (Figure 7). Therefore the *accumulation* wealth phase spans from young adult to family formation to independent children and building up your practice as an associate or owner. Then follows the *decumulation* wealth phase with pre-retiree retirement planning, exiting dentistry/practice to your retirement plan.

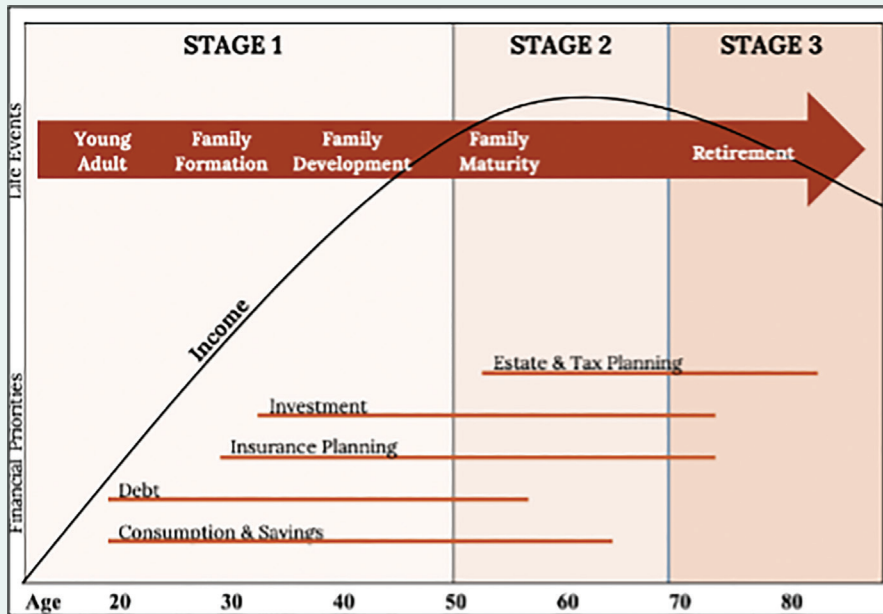


Figure 7: Adapted from *Fundamentals of Business, Personal Finance* Chp 18 pg 338 Pamplin College of Business Chp 18

These life and professional stages involve different financial priorities: spending and savings, debt management, insurance & investment planning, and estate planning (Figure 7). The main features in these requirements are:

Cash Management System / Asset & Liabilities: Tracking your spending is the first step to financial planning. Looking at your bank statements is an eye-opener if you want to see your "true" values. I recall a few years ago when I initially started doing this, I was initially horrified by how much money we spent on unnecessary items. Again, procrastination was an issue with our spending track that I initially outsourced to a financial adviser. One silver lining of the COVID lockdowns is that it questioned how much you really "need". Thus does your spending meet your values. Also, do you know your net worth? A simple calculation of your assets minus your liabilities to get a net worth gives a current picture of your present. Once you are clear with your cash flow and net worth, you can work out how to get to where you want to go.

Debt Management: Asks the question of what debt to pay off first as your income increases? Will that be a credit card, student loan, home mortgage, practice loan, or even your car and other personal debt? One method is to pay off your highest-interest debt first. Or you could use the "snowball" method, where you pay off the smallest amount of debt first then move to the next largest. This method has the value of giving you quicker wins sooner, which encourages debt payment.

Risk Protection: This is vital at all stages of your life. If you cannot cope with unexpected financial events, you can jeopardise your accumulated wealth. Insurance planning and emergency funds are your most significant protection against these events. For example, losing your future income is your most significant risk; thus, income protection insurance protects you from an unexpected health event. After my seminar, an older colleague came up to me and shared a story about being hospitalised with a severe illness a few years after he graduated; thus, he wasn't eligible for income protection insurance. Applying before any pre-existing conditions occur with all insurances means no restricted



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coverage or increased premiums. You only have to look at the Give a Little website to see how unexpected events can be devastating financially. As your family size increases or other debt is acquired, appropriate insurances are critical, such as trauma and disability, recovery, and life insurance. Similarly, health insurance is ideal for elective procedures and non-funded drugs. As children leave home and become independent, you will require less insurance coverage or have the ability to self insure. It is important to have regular reviews with your insurance broker/company when life changes occur.

Investment Advice: As dentists, we have excellent cash flow from our profession, so investing these excess savings needs consideration. To grow your excess savings, you need to invest in growth assets^b or your business. The main question to ask is how does this investment fit in my plan? i.e. fit with your values/goals and plan. Then how do all these assets fit together? Your portfolio^c should be appropriate to your risk tolerance,^d time frame and type of investor you are. For example, are you investing for the long or short term, such as buy and hold or speculator? Being clear on your investing strategy will make your tactics easier to decide, such as holding concentrated or diversified products—for example, a property investment versus a diversified managed share fund. A concentration strategy may create your wealth, yet diversification preserves your wealth. At the same time, it is important to be aware of the risks involved with these products.

Estate Planning: Usually, a Will and an Enduring Power of Attorney for your personal care and welfare is crucial at all stages of your life when you are incapable of making decisions or are not around. These documents need to be updated to your life stage. Similarly, is your Trust still relevant now and to your current wishes? It is common for one person to be in charge of the family's finances. If that is not you, and your partner passes away, could you cope with your financial affairs? If you are in charge of the personal finances, could your partner do the same if you are not around? One tip is to have a folder of all the essential documents so there is no frantic searching in times of need.

Retirement Planning: The most expensive stage in your life is retirement, so you need to determine how much you require for your retirement and plan for this. At the same time, formulating whether you want to retire completely, semi-retire or even have temporary retirement breaks (sabbaticals) during your working career. Retirement requires in-depth planning for your spending needs. Initially, it is a change in mindset from an accumulation to decumulating your assets that can be difficult to manage. There has been more detailed research about spending rates during retirement, particularly now in a low-interest-rate environment.⁴⁻⁶ Spending seems to be higher when you first retire due to time and good health for retirement activities (e.g. travelling), then drops off in the middle stage of retirement and then rises again due to health-related costs.⁷

Similarly, the dental pathways create specific planning areas, particularly when transitioning from one stage to another.

Graduates require implementing a cash management system with automation to save a proportion of their income. As your income increases, your savings increase. The best time to implement this is before employment or early in your career to get into good habits. Other recommended steps are creating an emergency fund, correct KiwiSaver settings and a plan for income protection insurance. New associates need to consider the best legal structure, GST, provisional tax, and student loan repayments. I would encourage any long term savings to be placed in another bank account and invested in long term goals, e.g. house deposit or managed fund. Yet investing in yourself is just as crucial for continued education and increasing your repertoire of skills.

^b Assets that increase their value above inflation like managed funds like kiwisaver or direct investments such as shares or property.

^c Group of assets such as property, shares, cash and bonds or alternative investments.

^d How you feel if your assets' value go up and down is different for everyone including your partner.

Home Ownership may be a meaningful^e goal, so it would be advantageous to organise your finances to be an "ideal" applicant for a mortgage. The recent Credit Contracts and Contract Finance Act 2021 has created difficulties for first home applicants. Also, you may consider owning your practice. There are advantages and disadvantages to starting up a practice compared to buying an existing sole practice or into a group practice with different capital requirements and future cashflows.

New Practice Owners are required to change their mindset, with cash flow being the heart of the business rather than their personal income. Separating your dentist income from the owners' compensation (net profit) of their practices gives a more accurate picture of how the business is going. Later on, in your career, the question arises of investing in the practice vs investing outside the practice? Do you want to invest in growing the business with an associate/hygienist and technology or reduce business debt? Or do you want to invest outside the practice? If you want to invest outside the business, will this be debt reduction or investment in other assets to preserve/grow your wealth? These questions are not singular, and there are times when doing a few of these items will match your values.

Long-Standing Dental Associates have a similar question with your surplus income, with debt reduction or investing in growth assets.

Specialists tend to have higher debt levels, and most have higher start-up practice costs, and it takes longer to be established due to growth through referrals. Once they become established, their niche creates being at capacity longer.

Pre-Retiring Dentists will be working out how to exit their working careers. Studies have shown that retirement increases life satisfaction and depression yet can reduce a sense of purpose. Some research shows that if you have a non-satisfying job, retirement can be an opportunity to pursue meaningful activities.⁸ Yet if you gain a sense of purpose and enjoyment with work redefining retirement could be working part-time for that continued sense of purpose. For example, a few of my colleagues in their 60's enjoy working so will continue to work until they phase to part-time, eventually selling the practice to a dentist that will look after their patients. Another colleague worked extremely hard and then semi-retired as an associate when he was young. He thought this was what he wanted, yet realised that it didn't satisfy him at this period. To renew his sense of purpose, he bought another practice. So questions to ask yourself are: What are you retiring to? What does your ideal retirement look like? What structure are you going to have each day to replace work? These answers determine your strategy/tactics if you want to sell your practice and completely exit or work part-time. You want to plan your exit strategy at least 5-7 years before retirement, especially when it is common to be forced into retirement due to ill health.

^e Do you want a house due to your values, or is it due to FOMO and escalating house prices?



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REAL-LIFE

In real life, when the pathway and life stages overlap, this becomes more graphically messier than the graphs typically shown (Figure 8). Even this representation seems idealistic, for usually major life events happen together.

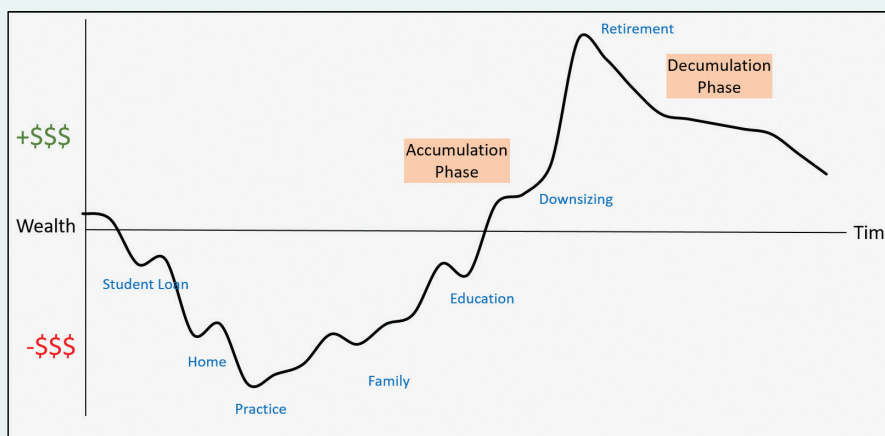


Figure 8

Furthermore, life has always been uncertain, which has become more evident in the last two years with COVID. Everyday life brings unexpected changes. Some of the most stressful events are divorce, death of a spouse or family member, health illness for yourself or another family member. Likewise, financial windfalls like inheritance or increased business profit can increase your choices in life.

All these changes are normal part of life and will change your plan. Actually, once you write the plan, it tends to be redundant. Yet the planning process is critical because it gives you a framework.

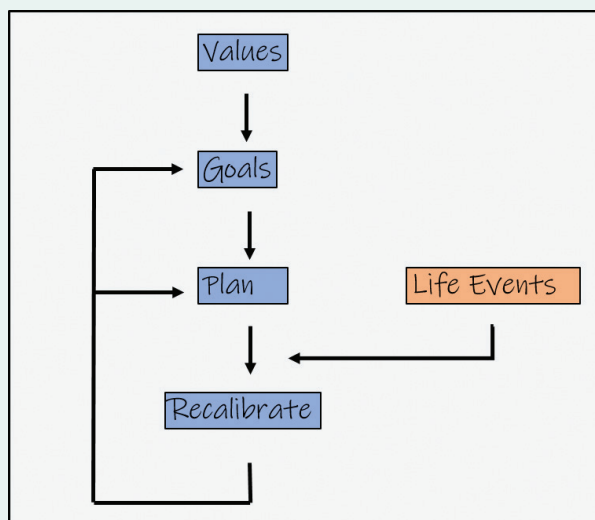


Figure 9

Even when you plan for expected life changes, such as buying a practice, starting a family, or retirement, it may differ from your expectations. So adjusting your plans to these changes—recalibrating is entirely normal. Thus this process is ongoing and continues during your entire life (Figure 9). Ideally, it is important to have these conversations with your partner to acknowledge the differences and similarities with your values.

Furthermore, life is full of making mistakes. So if you have made some financial mistakes, remember that is NORMAL. Try not to blame or shame yourself now for your history. If you feel you didn't start soon enough with your savings, start now. If you have been procrastinating about your finances, that is normal. It is common to feel you haven't done enough to this point. A financial planner colleague commented that most of his clients are too hard on themselves. These feelings and mistakes are not an excuse for inaction now, yet reliving the past does not help your current situation. The key is to take one action to where you want to go.

Unfortunately, going through the values/goals/plan framework is critical yet insufficient. When you advise your patients on the benefits of flossing to improve their gum disease, only a few follow through with this. That is, knowledge and execution are different. The key with financial empowerment is breaking it into bite-sized steps, and it is even better if you have accountability from another person. If you require to track your spending, look at your last week of spending and record that. Also, having accountability from a third party means that your action is more likely to get done.

You may require help through this process for more information or options, e.g. fee for service Financial Adviser.[†] This help is not because they are more intelligent than you, but because they are not "you". They can go through the process with no emotional attachment and provide options to make the best decision for yourself and your family. Furthermore, if you want to go through this process with your partner, it is more efficient and easier with a professional.

Action Steps

1. Go through a values-based exercise to find meaningful goals for you (see helpful links). This foundation can reveal your purposeful goals, thus making your tactics/strategy clearer. It is just as valuable to check with your partner what their values are and where there is common ground. Then assess that your existing goals meet your values. Similarly, check if your spending meets your current values.
2. If you require help, then DIY books by Carl Richards and Tim Maurer are the best place to start. Otherwise, professional help with a fee for service financial planner (like myself!). Look at interviewing a few to see if they are a good fit for you.

Conclusion

Traditional financial planning only looks at your financial data to give you a product. Yet it doesn't take into consideration what's important to you. This is because personal finance is more personal than finance. Real financial planning aligns your values with your money, clarifying your financial (and life) decisions. The financial, life and professional stages of a dentist usually overlap. For example, building your dental practice, expanding your family and looking for a larger home all at the same time. There are always financial constraints; hence choices are required. A values-based framework identifying what's more important to you helps with these compromises. Also, accept that life is unpredictable, which will cause you to change your financial plan. Overcoming previous mistakes or procrastination by accepting your current situation with an action plan will get you to your meaningful goals.

[†] NZ research has shown that people who seek advice tend to have better financial outcomes. (Money and You (FSC report) on Financial Advice outcomes 2020 - <https://tinyurl.com/2wmmv96h>)





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HELPFUL LINKS

All links below are at www.thefinancialdentist.co.nz/resources

Values Framework resources

- <https://behaviorgap.com/whats-important-about-money-to-you/>
- <https://tools.positivepsychology.com/meaning-exercises-pack>
- Intention-Powered Financial Planning - <https://tinyurl.com/2ndepsds>
- <https://thephysicianphilosopher.com/guides/three-kinder-questions/>
- Carl, R. (2013). *One-Page Financial Plan*. Penguin.
- Maurer, T. (2016). *Simple Money: A no-nonsense guide to personal finance*. BakerBooks, a division of Baker Publishing Group.

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BIOGRAPHY

Dr Ko Vasan BDS, AFA

Ko graduated in 1997, worked in Rotorua, England, and is now based in Auckland. He is currently in private practice at St. Heliers Dental Group and a Professional Practice Fellow at the Auckland Faculty of Dentistry. He is vice president of the NZIMID and recently became an executive board member of the Auckland Dental Association.

After navigating the minefield of financial information for his personal finances, he became passionate about teaching financial literacy. This interest led him to continue his education with N.Z Certificate in Financial Services and become an Authorised Financial Adviser (AFA) and a Financial Advice Provider (FAP) in 2021. He has done seminars/webinars for the Young Action Dental Group and Auckland Dental Association.

He has started his financial planning and investment advisory business specialising in dental professionals – www.thefinancialdentist.co.nz.