

# Cash is King

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This is the first of six articles to be written for the *ACG Update* in 2011 based on the six themes in the *Physicians Financial Navigator™*, a proven wealth management system for physicians.

**F**rom the first days of medical school, cash management is critical. Medical students often live on loans, so the pressure is reduced; but as residency, fellowship, practice and ultimately retirement develop, maintaining positive monthly cash-flow is critical to financial confidence and success.

Regardless of where you are in your career, the most critical component for successfully managing money is having realistic goals. Commonly, these goals fall into three categories:

- Standard of living
- Short term objectives
- Long term objectives

## Standard of living

We all have unique requirements to maintain the lifestyle that we have. It is important to realize that the way you allocate your income is up to you, not up to your various creditors, lenders, utilities, personal obligations or even the Internal Revenue Service, with exceptions.

First, look at your gross (before tax) earnings, from all sources. It is critical that you understand how our tax code

impacts your specific situation. There are different implications to being a W-2 hospital employee, an independent contractor or a partner in a private practice. An appropriate tax strategy should be a component of any money management program. Next, make a list of everywhere that you allocate money each month. This includes taxes, regular bills, discretionary spending, savings and debt repayment. You should be able to account for 100% of your gross income.

Now, document all of your goals and objectives and quantify them in terms of the ideal monthly contribution to achieve your goal. This may include purchasing a new car, paying off a debt or saving for retirement. Once you have the ideal amounts, as well as the actual monthly expenditures, you can review them to see if your spending is in line with your objectives. You can also look at your tax payments and see if there are areas to reduce your tax liability by shifting dollars to pre-tax programs like your 403(b), 401(k), flex spending account and others.

## Short term objectives

It is very important to separate your objectives. This allows you to create and monitor an independent plan for each of them. Some common short term objectives might be annual vacation spending, charitable giving, estimated tax payments or buying a new car next year. It is advisable to have a separate cash account for each objective. If you annually spend around \$5,000 vacationing, you can have a vacation account and allocate \$400 per month. If you are planning to buy a new car and want to put \$12,000 down next year, you can establish a car fund and al-

locate \$1,000 per month to the account for 12 months, thereafter using that monthly amount to make the payments.

Separating your objectives allows you to easily divide them by 12 and create a consistent, measurable funding plan to incorporate into your regular budget. This allows you the confidence of knowing that you are taking care of your day-to-day obligations, as well as preparing for those items that are less frequent but equally important.

## Long term objectives

These are goals that typically have at least five years before being realized. Examples are financial independence (retirement) and paying for children's education. For these goals, you need a realistic plan. With retirement, you should be able to articulate when you plan to slow down, what that means in reduced income and how long you intend to be financially independent. For example, let's assume that your goal is to go to part-time clinical work at age 65 and retire completely at age 70, with monthly after tax needs of \$8,000 and your family history suggests that you will likely see your 95th birthday. If you believe that you can earn 7.5% on your retirement investments, you can determine the monthly amount that you need to save, starting today, to enable you to take \$4,000 per month from your own resources for five years (ages 65-69) and then \$8,000 for the next 26 years. For long term objectives, it is also important to look at the current and future tax implications. Look for pre-tax programs that allow an immediate tax incentive as well as ongoing tax deferral.

With the knowledge of what it takes to maintain your standard of living, prepare for short term purchases, vacations and what it will take to accomplish your long term goals, you can develop a coordinated, efficient and effective budget. This will serve as a benchmark for making informed and educated decisions, as well as provide you with the confidence that your hard work is making a difference in your life, as well as that of your patients. [ACIG](#)

**Information on this page** is courtesy of Shayne Ruffing, CLU, ChFC, AEP®, who is the creator of the Confident Transition Plan™ for medical residents, the Physician Disability Income Analyzer™ and the Physician's Financial Navigator™. Thomas W. Ostrosky is an experienced wealth manager, guiding his physician clients in the complexities of asset preservation, estate planning and life insurance.

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