

# Your FINANCIAL HEALTH

A digest of money management tactics for the family physician

Summer 2001

## How to turn financial achievement into financial security



**Hollywood sensation Marilyn Monroe died broke.** Singer Willie Nelson earned millions, lost millions, still owes millions to the IRS. The list could go on, naming big-bucks sports figures, entertainers, entrepreneurs and many folks who accumulated it a few dollars at a time by hard work and thrift.

**Too many people have learned that making money is the easy part.** “In the long run,” cautions multi-millionaire entrepreneur Robert Kiyosaki, author of *Rich Dad Poor Dad* (Warner Books, 1998), “it’s not how much you make, it’s how much you keep, and how many generations you keep it.”

**What can you do** to protect the assets you’ve accumulated, to provide for your own future, and to pass on your estate to heirs of your choosing? There are no guarantees. However, there is much you can do to help transform financial achievement into long-term financial security.

**Suggestions to help protect your wealth** include the following:

**1. Recognize the difference between income-statement rich and balance-sheet rich,** stresses Professor Thomas Stanley, author of *The Millionaire Mind* (Andrews McMeel Publishing, 2000). If you earn \$200,000 a year, but spend \$203,000, you are broke, worse off than the person who earns \$50,000 but spends

\$45,000. You may be income-statement rich, but you are balance-sheet poor.

Stephen Ragatz, vice president of estate planning and business succession planning for Swenson Anderson, agrees. “One of the biggest mistakes people make is they look at their income versus their net worth,” he said in an interview with AAFP Insurance Services.

**2. Become financially literate.** And then keep learning all your life, building financial knowledge and expertise. Learn how to read a financial statement, how to understand a prospectus, how to put money to work for you. “Today, I often meet people who are too busy to take care of their wealth,” writes Kiyosaki. The more you know about money, the better you will be able to use and control it to achieve your objectives.

**3. Don’t confuse debt with wealth.** If you buy a \$450,000 home with a \$400,000 mortgage, you are not worth \$450,000. You are \$400,000 in debt. Most affluent families, points out Stanley, live fairly modestly. They avoid debt.

**4. Distinguish between assets and liabilities.** What is the difference? Explains Kiyosaki: “An asset is something that puts money in my pocket. A liability is something that takes money out of my pocket.” In other words, if you want to build and protect wealth, allocate your money to assets that help generate assets.

Example: If you have \$50,000 on hand, you can spend it all on a new luxury car, which, in five years, will be worth perhaps \$25,000. This is a liability.

Or you can put it into an asset (real estate, stocks, even a collector sports car) that holds the potential for an increase in value. If it returns even 5%, after five years, your original \$50,000 is now worth \$63,800.

Kiyosaki summarizes the concept simply: “Rich people buy luxuries last, while the poor and middle class tend to buy luxuries first.”

**5. Get good advice.** Entrepreneur Kiyosaki stresses that he does not have to be smart...as long as he can hire the services of people who are. Surround yourself with quality people, including experienced tax, legal and financial advisors. They will help you protect your assets and pass them on to the next generation.

**6. Accumulate money for retirement.** Even if you want to work until you are 90 years old, don’t assume you will be able to do so. Put money aside for yourself and, if married, for your spouse. Think of this as Part I (see # 10 for Part II) of your “Wealth Management” plan.

Determine how much money you will need for your own future. Then systematically set aside a percentage of all earnings to obtain your goal. Keep those assets safe and secure. Avoid high-risk, speculative investments until you’ve built a strong base which won’t be jeopardized by economic changes and uncertainties. This will help guarantee a comfortable retirement for yourself, no matter what happens to your other capital.

**Steps to help preserve your wealth** so it can be passed on to the next generation:

**7. Know what you want** when it comes to distributing your wealth. Have objectives. All decisions about wealth transfer should be goal driven. Look around the table when you and your fellow doctors have lunch. While you all may be roughly in the same income range and standard of living, your needs and goals may be totally different. One of you may be married to the same spouse for

*Continued inside...*

## Financial Security *continued*

35 years; another single or in a second marriage; another with a child who has special needs. Decide what *you* want to do with your assets, how you want them allocated eventually.

### 8. Decide how much control you need.

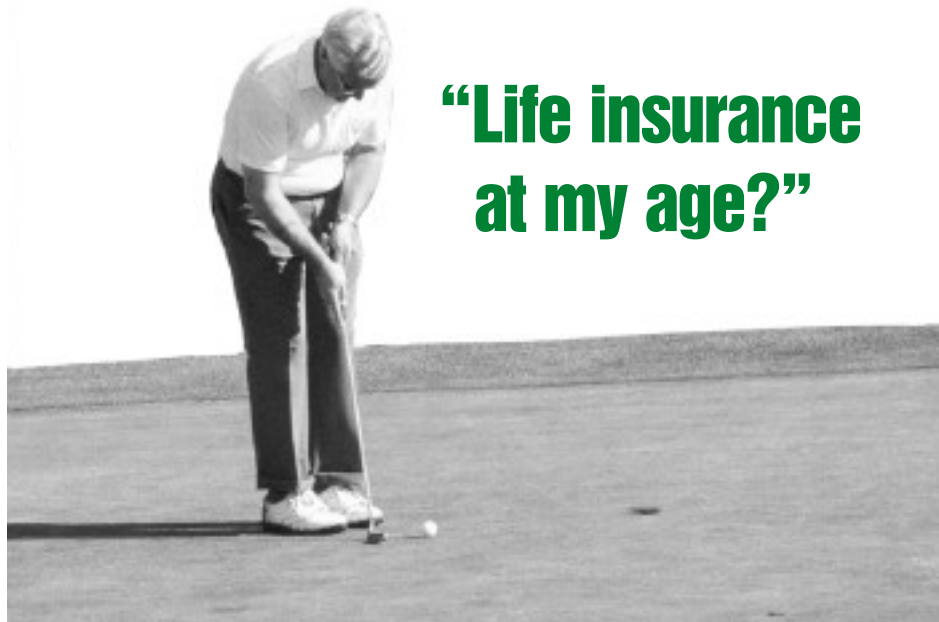
When it comes to estate transfer, often the best way to avoid estate taxes is to put money into trusts or make lifetime gifts. However, that typically means relinquishing control. Some people simply aren't comfortable giving up access to (or the management responsibility over) assets that took years to accumulate. Their peace of mind comes from retaining fiscal control over their own future...not from the knowledge that they've reduced their death taxes and estate settlement costs.

**9. Prepare the next generation** and discuss your intentions with your family, recommends Ragatz. "Too often, there is very little communication with beneficiaries. The kids have no clue about what they will receive at the parent's death, and they have even less of an idea what to do with their inheritance when they receive it." Offer guidelines and, when appropriate, let heirs know how you recommend gifts be used. In other words, Ragatz stresses, teach your heirs how to use their money, not just spend it.

Succession planning is crucial if your assets are to be carried over to the next generation. There can be a lot of emotion involved. However, it is important to be honest and objective with heirs whenever possible, especially since there may be tough decisions to make. The bottom line: Discuss what you intend to do with your money.

**10. Preserve your wealth** from the ravages of estate taxes and other pitfalls by owning life insurance and disability insurance. (This is Part II of your "Wealth Management" plan.) Disability insurance protects your assets if you become incapacitated while living. Life insurance is a tremendous tool to help achieve distribution goals, all income-tax-free.

**Guarantees?** Not in the real world. However, by addressing the above issues, you can dramatically increase the potential for turning the wealth you've achieved into long-term financial security for yourself and for your loved ones. ■



## "Life insurance at my age?"

**There is a common misconception** that life insurance is strictly for the younger folks. Many of us believe that, as we grow older, we outgrow the need for coverage. That may not be true.

No matter what your age, life insurance can help provide financial security for loved ones, help settle an estate and make sure that your objectives are achieved.

Not sure of your needs? See if any of the following reflect your situation:

*Do I have a spouse to protect?* If you pre-decease your spouse, life insurance can help replace lost Social Security and pension benefits to assure that he or she is financially provided for.

*Do I have higher education expenses or outstanding loans for my children or grandchildren?* Life insurance can meet those responsibilities.

*Do I have business or mortgage loans that will need to be paid whether I am here or not?* Life insurance can retire those debts immediately.

*Do I want to make sure estate taxes and other expenses do not hurt my heirs?* Life insurance can replace the dollars you pay to Uncle Sam.

*Do I want to leave something for my children and grandchildren?* Life insurance will help you keep your promise to your heirs. Coverage can be earmarked to provide an instant,

income-tax-free inheritance for your children. Additionally, life insurance can help grandchildren pay education bills, put together the down payment on a first home or take advantage of other opportunities.

*Do I have a favorite charity or organization I'd like to remember ...and be remembered by?* Many people purchase life insurance and donate the proceeds to their alma mater or a favorite charitable institution.

**The bottom line:** Life insurance is not just for young families. Best of all, thanks to mortality and expense improvements, rates for older policyowners can be downright attractive.

Recommendation: Find out more about how life insurance can help you accomplish your goals. ■

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**No salesperson will call.**

# Smart money use of non-work time

**Sure, time is money.** No argument there. But more than that, time is our most precious commodity. As a busy doctor, you recognize the importance of managing your time well. Whether keeping pace with a busy appointment schedule, attending continuing education meetings, or keeping up on your reading, you know that every day is a calculated race against the clock.

**But what about non-work time?** That has a dollar value, too. How you use – or misuse – your free time is the determining factor in the quality of life you and your family enjoy. That's why some people can work 70 or 80 hours a week, yet still manage to participate in a highly rewarding home life. Meanwhile, others see leisure time as an opportunity to channel surf the television and then fall asleep on the couch. Or they devote their down time to household chores and yard maintenance, even though they'd rather be out playing golf.

**We spend time...just like we spend money.** For instance: Pat puts in 60 hours a week at the clinic and earns \$140,000 a year. However, she spent last Saturday comparison shopping through six stores for her husband's birthday present...saving a few bucks on a state-of-the-art gizmo. Just as bad, her associate, Don, used a week's vacation to paint the house.

**The problem: We can waste time...just like we can waste money.** That's what these two people have in common. Pat saved a few bucks on her husband's present, but lost a whole day she could have spent enjoying his company. Don saved several hundred dollars by painting his own home; however, he wasted several thousand dollars in vacation time that could have been spent more enjoyably with his family.

**How can you get the best value from your non-work time?** Evaluate how to best use your time in light of the following:

- **The pleasure factor.** This can override all other considerations. If you're a true-blue do-it-yourselfer who enjoys planting shrubs or building that new kennel for the dog yourself, go ahead. If not, you might be better off hiring someone to do the work for you...and spending more time with your family.

- **The dollar-value-of-your-time factor.** This is a hard-cash tangible, based on how much your time is worth. If your work time is worth \$150 an hour, your leisure time is worth the same amount.



Why not hire the \$15-an-hour handyman to build the matching trellis and picket fence while you go boating?

- **The convenience factor.** In spite of the cost, it may be more convenient to hand over the shoe box to a CPA rather than do your own taxes; to call the plumber rather than fix that leaky faucet yourself; or to tote home carry-out rather than spend an hour making dinner.

- **The guilt factor.** This is perhaps the most powerful reason we end up doing things we'd really rather not do. After all, don't real women bake cookies for their children and iron their husband's shirts? Don't real men cut their own lawns and repair that sticky screen door? The answer – NO! "Real" men and women make smart use of their time for themselves and for their families.

**Beyond dollars – How to enjoy your leisure time:** Many physicians are self-styled beasts of burden, so caught up in their profession that it consumes them. However, those who don't learn how to break away risk never fully enjoying the fruits of their labors. Here are some suggestions:

- **Learn how to relax.** Many doctors don't feel comfortable out of "work mode." So, they drive themselves beyond their already demanding schedules. Reminder: You are more than a physician. You're likely a father or mother, a spouse, a member of your church or temple... and of your community. Not only will getting out of the professional "box" be fun, but it will make you fresher and more focused at work.

- **Plan your leisure activities,** just as you do your work time. Map out your day off to include a few errands, watching your daughter's softball game, and an hour or two of being a couch potato. Or take a whole day off and give it to your son, daughter, spouse or friend to do with as they please.

- **Try not to bring work home...and NEVER bring it with you on vacation.**

**The bottom line:** If you're like most busy physicians today, you work hard putting in long hours each day doing what you do best. One of the rewards should be a comfortable lifestyle. Make sure you take the time to enjoy it. ■

# Your FINANCIAL HEALTH

Your Financial Health is published by AAFP Insurance Services, Inc., and is provided at no charge as one of our many services to members of the American Academy of Family Physicians.

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## Financial Footnotes...

**Dealing with death** is primarily the domain of women. That is because approximately 86% of the widowed are women, according to A.M. Matthews (*Widowhood in Later Life*, 1991). Further, half of all marriages end with the death of the husband; only a fifth end with the death of the wife.  
*Conclusion: Wives need to take an active role in the estate planning process.*

**Our children are drowning in debt.** Growth of credit card debt for college students vaulted from an average of \$1,879 in 1999 to \$2,748 in 2000 (USA Today, 2/12/01).  
*Recommendation: Talk to your students and make sure they are using credit cards only for emergencies.*

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Your Financial Health is sent to Academy members courtesy of AAFP Insurance Services, Inc. Material for this publication is written by John R. Ingrisano—author, educator and journalist on money management and financial matters. Mr. Ingrisano has served as an advisor to AAFP Insurance Services since 1985.  
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