

THE COMPREHENSIVE FINANCIAL PLAN

A TREATMENT PLAN FOR YOUR FINANCIAL HEALTH



As dentists, we see the benefits of having a full diagnostic workup and treatment plan for our patients, but fail to translate the same advantages to our personal lives. The majority of dentists do not have a financial plan – a treatment plan that helps them achieve lifelong financial independence. More importantly, despite all the talk in the media about financial planning, many dentists do not know what the process involves and, specifically, how it would help their particular situation.

WHAT IS A FINANCIAL PLAN?

Comprehensive financial planning is a multi-disciplined process that creates a roadmap for your financial future. The areas of focus include education funding, tax planning, insurance options, retirement planning, estate and trust issues, investment strategies and business planning. In many respects, a comprehensive financial plan is the same as a clinical treatment plan:

- It identifies and prioritizes your personal needs and wishes
- It establishes financial goals to achieve your personal objectives
- It presents different options to meet your goals, and addresses the pros and cons of each option
- It outlines coordinated steps to meet these goals
- It follows your progress to ensure that you are on the right track
- It creates a monitoring process whereby any changes to your personal situation or any new financial issues are dealt with quickly and efficiently

BENEFITS OF A COMPREHENSIVE FINANCIAL PLAN

1 | It Forces You to Evaluate What is Important to You

A financial plan is a bit of a misnomer. It is actually a life plan to achieve all of the important goals in your life. For one individual, it may be retiring at 55 and travelling the world. For another, it may be making sure that their special needs child is well taken care of. These are very personal goals and it usually has a price tag attached to it. A financial plan provides a guided path to finance your important life goals.

2 | It Gives You a Starting Point on the Road to Financial Success

Most dentists do not know what their overall financial picture looks like. How much do they actually have? What do they spend in a year – and on what? Are their assets growing or declining? A financial plan gives you a snapshot of your present situation and maps out a starting point for your financial growth. As they say, if you don't know where you are, it is difficult to get where you want to go.

There are two important metrics that everyone should monitor – your Net Worth, and your yearly Net Cash Flow.

3 | It Identifies Risk

For most dentists, their practice is their economic engine and a contingency plan must be in place if the engine falters. Death, disability, fire, flood, or patient complaint can all bring the practice to a standstill. A financial plan looks at the impact to your family in case of an unexpected event. Proper planning minimizes negative effects by ensuring that adequate savings or insurance is in place. Life, disability, office overhead, and critical illness insurance are just some components used to manage risk. For dentists, a financial plan can also look into partnership agreements or associate arrangements to make sure the practice functions even in your absence.

4 | It Coordinates The Different Disciplines

By looking at investments, taxes, legal issues and insurance structures together, a financial plan can provide a holistic overview of your entire situation and make sure that all the different parts work together. Rather than disjointed strategies, you work with one plan that combines the best ideas from all disciplines.



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Continued on page 42

NET WORTH = HOW MUCH YOU OWN (YOUR ASSETS) minus HOW MUCH YOU OWE (YOUR LIABILITIES) at any one point in time.

As a one-time calculation, your Net Worth gives you an indication of your total family wealth. It also provides a starting point from which you can grow your savings. Over a number of years, calculating an annual Net Worth reveals more important information. It is the truest way of tracking the growth of your savings. If your Net Worth is increasing year over year, you are a net builder of wealth. On the other hand, if your Net Worth trend is declining, then a close look at your savings and investments are in order.

YEARLY CASH FLOW = HOW MUCH YOU EARN (INCOME) minus HOW MUCH YOU SPEND (EXPENSES) over a 12 month period.

A consistent positive cash flow will increase your net worth and generate wealth in the long run. Again, if your cash flow is negative or declining, an analysis of the reasons why must be done. A reduced cash flow does not necessarily mean trouble. In many cases, dentists are using cash flow to pay down debt or to invest in new technology or services.

Continued from page 21

5 | It Sets Your Goals on Paper

Dentists lead busy clinical and family lives and without a written list of financial goals, the best intentions tend to fall to the wayside. Setting your goals on paper creates a contract with yourself that is not easily broken. It is also a concrete reminder that you can refer to on a regular basis.

6 | It Allows for an Objective Look With Fresh Eyes

Everybody has financial realities that are not ideal. Maybe our borrowing rates are too high. Perhaps we should reorganize our business structure to save taxes. Maybe our spending has spiraled upwards. After a while, these inefficiencies become the norm and we stop thinking about them. By going through the financial planning process with an objective planner, inefficiencies can be highlighted and distinct actions can be set up to rectify them.

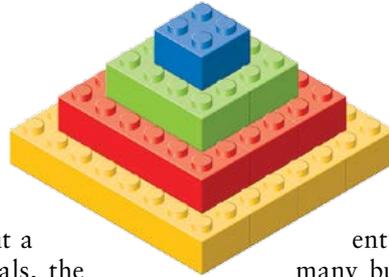
7 | It Identifies Opportunities or Concerns Early, While There is Still Time to Act

For many financial strategies, time is our greatest ally or enemy. It takes time to implement changes and let them work effectively. The sooner into a dentist's career that concerns or opportunities can be identified, the greater the long-term benefit.

Let's take something as simple as a savings goal for example: Suppose you have a goal of saving one million dollars in a registered account by the time you are age 65. If you start at age 25, assuming a 6% annual return, you would need to contribute less than \$6,500 per year. However, if you start your savings goal at age 45, you would have to save over \$27,000 every year to reach your objective. By starting earlier, you would save yourself close to \$280,000 in contributions.

8 | It Provides Access to Professional Advice

The financial planning process, by definition, involves working with a profession-



al financial planner. They bring expertise that may not be apparent to the client. There are many business strategies, government rules, tax and legal structures, and financial products that can be used to achieve your goals. A professional financial planner can help you navigate through the many different options and find the best solutions for your situation.

9 | It Acts as the Ultimate Buddy System

As dentists, we encourage our patients to have regular cleanings and check-ups. This gives us a chance to monitor their oral health, but equally as important, it allows us to motivate and encourage our patients to maintain excellent home care. We are the “buddy” that pushes our patients to better health. Similarly, the ongoing monitoring process established by a financial plan acts as the ultimate buddy. Consistent encouragement by your planner challenges you to meet your annual financial goals and offers support in case you falter.

10 | It Breaks Down Larger Goals Into Manageable Pieces

For most individuals, taking that first step to controlling their finances is the toughest. When faced with a daunting task, many will choose to do nothing. The best way to overcome this inertia is to break down financial goals into attainable steps. This is one of the greatest benefits of a proper financial plan. Not only will a plan help to define your financial goals, but it will also guide you through the big hurdles by concentrating on small, specific actions along the way. This way, you are able to make substantial progress without taking an “all or nothing” attitude.

Starting on the path to financial freedom requires the same discipline that you use in caring for your patients. Much like a dental treatment plan, a financial plan envisions your ideal destination, lays out an efficient course of action, and guides you through each step of the journey.

Dr. Wilson Chen is a Financial Advisor with Raymond James Ltd. The views of the author do not necessarily reflect those of Raymond James. This article is for information only. Raymond James Ltd. member of Canadian Investor Protection Fund.