Doctor's orders: Start saving now

Medical doctors have tremendous earning potential and can expect to accumulate wealth in their lifetime. But here's the stark reality. From the day you commence community service, you're likely to need a capital amount of around R60m on retirement if you hope to maintain your lifestyle after you stop practising.

Based on your projected income over the next 40 years, and assuming inflation, that could be a reasonable sum to aim for, provided you save adequately from the moment you start to earn a salary.

“Healthcare professionals often don’t factor in financial planning, simply because they’re time-starved. Like most people, it can be easier to ignore the problem than confront it,” says Chris Jacobs, certified financial planner at Sanlam Personal Finance.

This means doctors may struggle to save sufficiently, especially for retirement.

Young doctors starting out

Most young doctors tend to have a late start to retirement savings, “During their first 10 years of practising medicine—when the power of compound investment growth has the biggest impact on retirement accounts—doctors are often strapped with student loan payments, childcare expenses, mortgage loan payments or new practice expenditure, which makes it challenging to contribute to any form of savings. The result is a need to invest much more, later on.
Young doctors should consider:

- Life cover to protect loved ones from student debt
- Income protection and lump sum disability cover as the loss of the ability to earn an income is the single biggest risk a young person faces
- A retirement annuity. The compound interest you accumulate when you start saving early is invaluable

Established doctors

- ## public sector vs private sector

  There are different considerations for doctors in the public versus those in the private sector. Public sector medical practitioners earn a fixed income, work set hours and are members of the Government Employee Pension Fund (GEPF). From the first month of employment, these practitioners can start building up their savings.

In the private sector, the doctor's income doesn't go into his or her pocket, as one might think. Any earning will have to cover the business expenses (office premises, staff, equipment), medico-legal cover and retirement funding – as he or she has no pension fund – which will require significant investments.

- ## Doctors starting a practice

Most doctors who successfully start a practice tend to follow the 1,000-day-in-business rule. If starting a profitable practice is a long-term goal, you need to have a savings plan in place to allow you to save enough to sustain the business for 1000 days. If it's not profitable at that point, you might need to reconsider.

It isn't uncommon for some healthcare professionals to lose money until a strong patient base and steady referral network are established. Practitioners who plan well, secure appropriate funding and remain flexible to the fluctuating climate of the healthcare sector, stand a better chance of accomplishing success in their businesses.

- ## Doctors and savings goals

It comes back to knowing short, medium and long-term goals in detail and having a plan to achieve these. Say a doctor wants to save towards their child's tertiary fees. In this scenario, a tax-free savings plan could be appropriate. To make this kind of decision, you need to understand how you're going to invest to reach each goal – the portfolio, time period and associated risk. That's where financial advice is very valuable.

It's also about asking the right questions. If a doctor says she needs life cover, a financial planner would ask what the life cover is for. Is it to settle capital debt, provide an ongoing income for her family, offer enough liquidity to settle an estate or fulfil a specific wish like leave a donation to her charity of choice? When these questions are asked, then the right vehicles can be chosen.

- ## Doctors and retirement

If you earn over R1.2m a year, you can contribute the maximum amount of R350,000 to your RA, which saves you R157,500 in tax per annum.

This is the optimal scenario. But what if you haven't saved enough and now you're nearly 50 with no retirement savings? You'll need to start maximising your contributions. Additionally, you might need to look for ways to keep working past 65, if you work for an employer. You could provide consulting services for a year or two to pass on your expertise, for example.

Planning has a huge role to play. Consider this example: a doctor earns considerably more than her husband. In scenario A, she makes all the retirement contributions and retires with R20m, with her husband having no savings. She draws a million in income annually and gets taxed 45%. In scenario B, both she and her husband contribute to RAs, so retire with R10m each, thus the marginal tax rate for both is lower.

Doctors should also start their succession planning journey early on. If you're handing over a practice you need to groom someone to take over, get familiar with your client base years before the handover, and buy into the value of the business – which will give you more money to contribute to retirement savings.