Get Your 
FINANCIAL PRIORITIES 
In Order From Day One


For many dentists, the early years of practice are a blur of demands, opportunities, and frantic activity. They can also be a time in which serious and potentially catastrophic financial mistakes are made.

Early in your professional life, often you are faced with a multitude of expensive decisions. Some of these affect your lifestyle, others affect your career, and all can have a profound and powerful effect on your bank account. Yet few dentists fully understand the impact of these decisions on their long-term professional success and financial security.

Chau Lai, CFP®, ChFC®, is a certified financial planner and chartered financial consultant for Pacific Advisors, a wealth management and preservation firm. She urges dentists in the first 10 years of practice to take a step-by-step approach to ensure their financial stability both early in their careers and over the long term.

Step #1 Protect the investment that is you. Ms. Lai emphasizes that every new dentist needs personal disability insurance to protect the investment you have made in your education. “This is extremely important particularly when you consider the doctor’s income potential over the life of their career.” She notes that it is essential that the doctor own a personal insurance contract. “The doctor should not purchase the disability policy through an association or rely on an employer group plan for coverage. The reason being, the terms of the contract can be changed or cancelled at any time and the insured has no rights. That’s why it’s very important to lock in your own personal disability insurance coverage early on.”

Additionally, she recommends that new dentists invest two to four years working as associates to learn the business side of dentistry and gain an understanding of management, insurance plans, software systems, and business models. “These years of associateship serve as the doctor’s business residency to prepare him or her for practice ownership,” emphasizes Ms. Lai.

Step #2 Create a savings safety net. Ms. Lai advises doctors to build their savings to cover a minimum of three months’ worth of expenses. This helps to ensure that the doctor has a financial cushion in the event s/he cannot practice for a period of time for personal, family, or health reasons. Moreover, should the doctor become disabled, there is typically a three-month waiting period before disability benefits kick in.

Step #3 Protect your credit rating. Although many new dentists rack up significant personal expenses upon graduating from dental school — in addition to the large college loans they’ve accrued — Ms. Lai urges doctors to steer clear of the consumer debt trap and protect your credit rating. For those who are carrying significant consumer debt, such as credit card debt, a mortgage, and a large car payment, the first priority is to get your consumer debt under control, starting with debt consolidation.

“With multiple loans there are multiple payment schedules and different amounts for each and that can be a lot to keep track of. Consolidating the loans will simplify the new dentist’s life, and right now interest rates are very low, making consolidation a cost-effective option.”

Additionally, Ms. Lai notes that doctors who have family members with considerable cash liquidity may want to consider borrowing from the family member. This arrangement would allow the dentist to borrow the money at an interest rate that is slightly higher than what a traditional savings account yields, perhaps 3%, but lower...
than they might be able to secure with a bank. “This type of arrangement can be particularly beneficial for those with high consumer debt. And it benefits the family member loaning the money as well.”

If you are considering taking out a consolidation loan from a bank, Ms. Lai urges those doctors early in their careers to build a relationship with a local bank. “Local banks are excellent options for new dentists because they are going to look for ways in which they can work with the new dentist, and they may have more flexibility than larger national banks to address a new doctor’s unique financial circumstances.”

Ms. Lai also recommends investing in identity theft protection services, such as LifeLock. And she urges doctors to be vigilant in paying off credit card balances monthly to protect their credit ratings.

Step #4 Build your savings safety net before you start saving for retirement. When considering when to begin saving for retirement, Ms. Lai notes that new dentists should consider how much financial liquidity they have. If the doctor has a great deal of consumer debt, the first objective must be to pay that down. The next is to have the financial safety net in place. “You should have a least one year of liquid savings in a savings, checking, money market, CD and/or cash value in a whole life insurance contract before funding a retirement plan. Accessibility and control of your money are critical for financial security and wealth building.” After that, the doctor should be in a position to begin saving for retirement.

Step #5 Purchase business overhead insurance and life insurance. Most dentists build or purchase their own practice within the first 10 years of their careers. At that point, business overhead insurance is essential. “Should a doctor not be able to work due to accident or illness, this enables you to keep the business operating. It pays for your fixed expenses, your business mortgage, your staff salaries, your utilities, etc. It covers everything to ensure that your office can be kept open until you can return to work or find a qualified buyer for your practice,” explains Ms. Lai. Additionally, business overhead insurance is tax deductible.

At this point in their careers, new dentists should have a term life insurance policy in place. Ms. Lai emphasizes that life insurance is essential to pay off any practice loans as those are not forgiven in the event the doctor dies.

CONTINUED ON PAGE 34 >>
As your practice grows and your financial liquidity improves, you can explore longer-term financial investments such as stocks, bonds, mutual funds, and whole life insurance to protect the lifestyle and family obligations that you assume throughout your personal and professional life. Just don't jump into the deep end of this pool too early, warns Ms. Lai. “One of the biggest mistakes I see doctors make is investing in the stock market before they’ve paid off their consumer debt or built their savings.” Ultimately, it will be careful planning and preparation that will enable you to achieve the greatest return on your financial investments at every phase in your career. Want to learn more? Visit www.pacificadvisors.com/chau_lai.