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Highly Trained Professionals Face Special Financial Challenges

A topic that we've thought about recently is the special financial demands placed on certain highly trained professionals. We're talking about doctors and others whose educations take much longer than average to complete. Even though they usually end up being very well paid, they start their professional lives well behind their peers, at least economically speaking.

Any student considering going into medical school, or pursuing other post-graduate or professional degrees, has to be concerned with the cost of that education. Not everybody is fortunate enough to have wealthy parents or a well-invested 529 college fund. Student loans are typically a much heavier burden for doctors and other professionals than they are for most college graduates – and that's not to minimize their burden on even the average bachelor's-degree graduate.

Then consider this: unlike those typical graduates who start working full time in their early 20s and can soon buy homes and start investing, a doctor or PhD may not be done with school and working full-time until a decade later. That means they have significantly fewer years for the magic of compounding, and dividend reinvesting, and real estate appreciation to help them build wealth.

But even though full professional qualifications — and full earning potential — come late, the financial obligations of adulthood often don't wait.

It's not at all uncommon for marriage and families to come during, not after, those advanced academic studies. And so that medical intern or aspiring professor carries all the expenses of maintaining a household and raising kids.

For a newly minted doctor or professor or lawyer, the burdens of tuition are still fresh. And so, it has to be a big deal for them to consider how to help their own children through higher education.

No sooner do these new graduates hang up their shingles than they face the pressures of staying current with the state of the art in their profession while keeping a practice running. Which includes all the overhead of a small business. Insurance, payrolls, personnel hassles, and taxes are just some of the higher-profile headaches.

Anyone in a demanding career knows, of course, that long hours and lots of midnight oil make it all the more difficult to focus on longer-term concerns. Who can blame you if you choose to spend your non-working time with your family or with hobbies, recreation, sports, etc. Those uses of precious leisure carry more immediate rewards than do financial planning or following the latest market gyrations.

All of which suggests that highly skilled – and highly stressed – professionals should themselves rely on professional help — from a qualified financial expert.

Look at it from the point of view of, say, a doctor. Doesn't it make sense that complex and rapidly evolving professions would require specialists who keep up with the latest research and have access to the most relevant data? In that way, finance is exactly like medicine or the most demanding physical sciences. Sure, some financial tasks, like balancing your checkbook, are things anyone can handle. It's like how anyone can put on a Band-Aid or take aspirin for a headache. But planning for retirement or children's education or making tax-and-insurance decisions for a complex business, are not do-it-yourself tasks, any more than brain surgery or chemotherapy would be.

That's especially true for professionals who might be as much as ten years behind others their same age when it comes to saving and investing. To safely overcome a late start, good advice can be critical.

Take the challenge of catching up on retirement savings. An intelligent amateur might give in to the temptation of buying risky securities because of the prospect – not a promise, just a possibility – of high returns. A carefully worked out financial plan should distinguish between investment and speculation and specify how many dollars are available for each. Putting the assets you need for your nest egg into risky, speculative ventures could end up leaving you in the lurch.

Then there's that too-common pitfall that high earners encounter when the real money starts rolling in. It's so tempting to splurge on luxuries, after years of scrimping, at the expense of thoughtful investing in your own and your family's future. Again, a sound long-term plan can help a newly prosperous professional steer clear of those impulsive bad decisions.

An appropriately tailored plan can make it easier to take advantage of the tax code, making it work to your benefit in such areas as setting up retirement accounts and college funds.

The right advisor will also help you think through a host of downside risks, making the right choices in such areas as professional liability insurance, health coverage, and even planning for potential business problems. A medical or legal or architectural practice, after all, has all the headaches of any small business, but with far greater potential liabilities than a typical retail or service outfit. It has to balance malpractice coverage on top of the usual slip-and-fall and product-liability coverage that most businesses need. And that's not to mention business interruption insurance and protection against calamities like embezzlement by employees.

Because a self-employed professional doesn't have a corporate safety net, it's important to consider the possibility of being unable to work – and unable to earn. Obtaining disability insurance, and possibly coverage to keep the office running if an owner is unable to work, is another of those vexing problems that a good financial adviser can help with.

Precisely because of all these burdens, many professionals have decided against running a solo practice or partnership. Instead, they merge with or go to work for a larger corporate enterprise. Weighing the pros and cons of either approach can require the expertise of a specialized business consultant.

A patient may sometimes need to consult a cardiologist or rheumatologist in addition to seeing his general practitioner. Likewise, a self-employed professional might well need to have his regular financial planner call in a specialist's expertise, too. The best financial professionals have access to well-qualified, trustworthy specialists, and can involve them when their clients' needs require.