Strong Financial Medicine
By Raymond Fazzi

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Advisory specialists are serving medical specialists with very special needs.

The first time David K. Sebastian took on a physician as a client was early in his financial planning career—the result of a casual meeting with an ear, nose and throat specialist who got burned by the 2000 tech collapse.

The relationship was largely routine, with Sebastian sorting out issues created by previous brokerage relationships, including an underfunded variable life insurance policy that assumed a 13% rate of return. “He was really a great guy, a trusting guy, and quite honestly he was listening to everyone and whatever they said was the hot thing to do at the time,” Sebastian recalls. “I started working with him, developing a financial plan and pulling all the pieces together.”

The relationship clicked. It led to the doctor referring another physician to Sebastian. It was a short time later, while attending a financial planning seminar, when the “light bulb lit up,” Sebastian says.

The seminar instructor asked people in the room to raise their hands if they specialized in serving high-net-worth individuals. “There was no way to distinguish between everyone in the room,” he recalls.

What Sebastian learned at the seminar was that while most advisors in his chosen profession were in a feeding frenzy over rich clients, few were specializing. That’s when Sebastian decided to dedicate himself to serving physicians. “What I took away from that seminar was, why not do this?” he says.

Six years later, Sebastian has succeeded in carving out a niche. He leads a four-member team that comprises the Physicians Wealth Management Group at Summit Financial Resources in Parsippany-Troy Hills, N.J.

The group serves more than 100 clients with assets under management of more than $100 million, he says. Along with traditional investment management and financial planning services, the group provides assistance with estate and business planning, as well as asset protection strategies for guarding against malpractice lawsuit judgments. “Basically, doctors want someone to take care of them just like they take care of their patients,” Sebastian says.

A Specialist For The Specialists

Financial advisors putting doctors and dentists at or near the top of their prospect list isn't new. Health care professionals, along with lawyers, engineers and corporate executives, have been among the most sought after clients ever since there have been financial advisors.

But advisors who limit themselves almost exclusively to doctors are indeed a rare breed. When the magazine Medical Economics published a list of the 150 best financial advisors for doctors in 2004, only a handful were advisors that work with doctors as a sole specialty. The overwhelming majority of firms on the list served doctors as part of a general wealth management practice.

That does raise the question: Is it worthwhile for an advisory firm to specialize in serving medical practitioners?

According to advisors involved in the specialty, if the question had been asked ten or 15 years ago, when doctors were essentially self-employed businessmen, the answer could have been “no.” Today, however, the landscape has changed drastically. Doctors now are generally employees of managed care networks. The growing threat of malpractice liability has also changed the medical landscape dramatically.

Such an advisory specialty is now both worthwhile and in high demand, according to advisors, because of the complexity of issues that come along with serving a doctor. “At a glance, you might say doctors are a great market because they have typically higher than average incomes,” says Robert Holcomb, CEO of Greenbook Financial Services in San Diego. “That can be true. But there are a lot of obstacles that stand between financial services and doctors.”

Among these obstacles is the fact that, on average, doctors have been seeing a steady drop in their annual incomes over the past decade as managed care companies have lowered their reimbursements. At the same time, their overhead has increased, with malpractice insurance being among their major costs.

Because of the malpractice threat, doctors are unique in the sense that they have an acute need for asset protection, tax and wealth transfer planning—more so, possibly, than any other aspect of financial planning.

These recent trends have compounded problems doctors have always had to deal with, such as the fact that because of their lengthy training and student debt loads they typically begin saving for retirement later than most individuals. Also, because they’re playing catch-up with their retirement savings, doctors have a reputation for sometimes being too risky with their investments and paying the price in the form of costly mistakes.

It’s a complicated scenario, advisors say, and one which not all general advisory practices are eager to take on. The truth of the matter, they say, is that doctors are no longer as prized by the general advisory industry as they are perceived to be. That, however, has created opportunities for firms willing to take on the medical niche.

One example of a firm that filled the medical practitioner void is Greenbook Financial, which was formed two and a half years ago through the merger of four advisory firms. The firm has grown to one serving more than 2,000 clients—virtually all of them doctors and dentists—with more than $300 million under management through a nationwide network of 65 Greenbook advisors, according to Holcomb.

The firm, Holcomb says, has a mission of being a nationally recognized expert in financial issues for medical practitioners, with an expertise that also encompasses practice management. Toward that goal, the firm’s representatives have been keynote speakers for organizations that include the American Academy of Pediatric Surgeons and the American Academy of Endodontists.

Malpractice And Asset Protection

Mark Singer, co-founder of Singer Xenos Wealth Management in Coral Gables, Fla., saw his firm transition into a medical practitioner specialty shortly after starting the company in 1986. At around that time, a large insurance company in Florida decided to drop out of the malpractice coverage business, sparking a crisis situation for doctors in the state.

Singer Xenos responded to the furor by developing asset protection strategies for doctors without malpractice insurance—usually by using a combination of traditional estate planning strategies. The strategies included transferring wealth to protected assets such as annuities and life insurance, spousal transfers and, less frequently, the use of limited partnerships and offshore trusts.

“We tried to use things that were basically proven concepts,” Singer says. “They were new in the sense that they were being used for physicians."

The demand for the firm's services became so great that all of its new clients were doctors. Today, the firm has about 450 clients—about 350 of them physicians—with about $750 million under management, Singer says. "We felt very strongly that we were able to keep a lot of good doctors in practice because they felt safe enough that they could practice without risking their life savings," he says. "That became part of our corporate culture."

After 20 years in this area of specialization, Singer says he feels that doctors are currently dealing with two major issues. One is that they tend to be poor investors. Their poor investment choices, he says, are not the result of being stupid. Rather, he says, physicians are too trusting of financial service practitioners.

"It's because of the environment they've been trained in," he says. "When an expert in an area provides a recommendation, they tend to follow it. It's like if a neurosurgeon says, 'Yes, I think brain surgery is required,' they will trust the advice and give the go-ahead."

The other issue, he says, is that of declining income. Singer says his typical client is making about 50% of what they earned 12 years ago because of cuts in reimbursements.

For example, he says, an obstetrician-gynecologist who was making about $400,000 a year 12 years ago would probably be making about $250,000 today before adjusting for inflation. This has made life especially hard for established physicians who started working in their profession more than a decade ago. "If they're living well at a high cost of living, planning for retirement is a real challenge," he says.

The income constrains spill over into investment strategies in the sense that physicians need predictable results, Singer says. They can't risk any losses because their income-earning years are fewer than most, and because they have few opportunities for increasing their income.

"They don't have what we call risk capital that they can afford to lose," Singer says. "They can't work harder and make it up. They can't expect increases in their salary."

On the contrary, what they can expect is living under the shadow of a malpractice lawsuit. Singer has seen cases where a physician's life savings have been wiped out, either due to a massive judgment or a lack of asset protection.

Working in a state with high malpractice risk but liberal asset protection laws, Singer's strategies focus on providing doctors with enough protection that they can opt out of paying for malpractice insurance. In South Florida, he notes, about 5,000 doctors "go bare"—practicing without malpractice insurance.

Singer says he sees anecdotal evidence that going bare helps reduce the risk of a malpractice lawsuit. "The theory is that a noninsured doctor makes less of a malpractice target," he says.

It's a strategy, he says, that is not widely applicable because many states legally require practicing physicians to have malpractice insurance. Even in states that do not have the requirement, doctors are sometimes forced to get coverage by the hospitals they are affiliated with.

Lawrence B. Keller, founder of Physician Financial Services in Woodbury, N.Y., works with advisors in a state where "going bare" isn't possible. His firm works with mostly younger doctors, and focuses on strategies that include the use of estate planning, insurance, tax planning and investment management.

"Physicians today aren't like those in the past, who knew that if they saw enough patients the income would be there," he says.

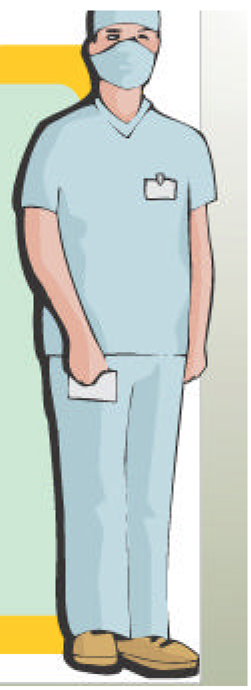
Doctors' Median Earnings 2005

Specialty	Total Compensation[1]
Cardiologists, invasive	$400,200
Cardiologists, noninvasive	325,000
Gastroenterologists	300,000
Orthopedic surgeons	300,000
Urologists	300,000
Ophthalmologists	280,000
Dermatologists	254,000
General surgeons	225,000
Nephrologists	210,000
Ob/Gyns	210,000
Allergists/Allergy immunologists	200,000
Endocrinologists	185,000
Rheumatologists	176,000
Internists	157,000
Family Practitioners	150,000
Pediatricians	150,000
Psychiatrists	150,000
General Practitioners	140,000

Region	Total Compensation[1]
East	$180,000
Midwest	184,000
South	185,000
West	170,000

MEDIAN COMPENSATION FOR ALL SURVEY RESPONDENTS: $175,000

Source: Medical Economics magazine, October 2006, from the magazine's Continuing Survey.
[1] Total compensation for unincorporated physicians is earnings after tax-deductible expenses but before income taxes. For physicians in professional corporations, it's the sum of salary bonuses and retirement/profit-sharing contributions made on their behalf. Data apply to individual office-based MDs and DOs.



"High-Maintenance" Dentists

When Jake Jacklich retired from the Navy last year and became a financial planner, he decided he needed a specialty. He eventually chose dentistry—partly due to having a father who is an endodontist.

But there was another reason: He found very few advisors were focusing on the area.

"The general consensus is they are high-maintenance clients," Jacklich says.

They have a reputation of being very inquisitive, he says, inclined to delve deep into why advisors may choose a particular investment or strategy. "They ask a lot of technical questions," Jacklich says.

Whether or not the reputation has merit, Jacklich sees a clientele encountering a number of issues that beg for help from an advisor. Among them are the rising costs of operating a practice and a general lack of retirement planning, including exit plans for when they retire and sell their practices.

With only a handful of dentists on his client list thus far, Jacklich sees opportunities ahead. “They are good clients, ” says Jacklich, a financial planner with Waddell & Reed Financial Services in Virginia Beach, Va. “They know that they are experts at medicine, and generally want my help and appreciate the work I do for them.”

At least one other advisory firm sees dentists as a lucrative market and has devoted significant capital to serving the market. Mercer Advisors, a Santa Barbara, Calif.-based company that was created in 2001 through the merger of Mercer Global Advisors and dental consulting firm ExperDent Consultants, currently has about 3,000 clients, mostly dentists and doctors, and about $3 billion under management.

During the last five years, however, the company has focused its growth strategies on the dental market—an effort that focuses on providing practitioners with comprehensive services ranging from financial planning, investment management, estate planning and practice management.

As part of that effort, Mercer Advisors last year acquired Financial Vision Advisors in Atlanta, a dental specialist advisory firm founded by former Financial Planning Association President Elizabeth Jetton.

The company also is constructing a 40,000-square-foot dental education facility in Scottsdale, Ariz., that will offer dentists training in the latest dental clinical procedures, says Gene Dongieux, one of four co-owners of the company and chief investment officer. A major reason the company has shifted its attention to dentists is because of the limited earning potential of doctors, Dongieux says.

The dental market, however, isn’t hamstrung by managed care companies and stands to see an increase in earnings because of the dental needs of aging baby boomers, he says. “What we have done is we have focused on the most complicated financial problems that these groups of dentists have,” he says of the company's services.

The company consists of three entities, he notes: Mercer Advisors, which provides investment management and financial and business planning; Mercer Transitions, which provides services for dentists looking to transition into a partnership and Mercer Mastery, which provides dentists with practice management services.

“The plan is to help our clients be in the population of dentists who do really, really well,” Dongieux says.

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