

## Section B

# YOUR FINANCIAL LIFE

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*This chapter offers practical advice and case studies to help you set up a realistic budget, manage your money, select insurance, and balance your personal and professional goals.*

## B-1

# WHY MONEY MANAGEMENT MATTERS TO MEDICAL STUDENTS

As a future medical professional, you can expect a very rewarding future, both professionally and financially. But you may not have expected the key financial issues you'll need to deal with in the short term to help ensure that rewarding future.

For example, do you know the answers to the following questions?

1. What receipts should you save now so that you can claim significant future tax benefits when you start your practice?
2. What saves you more money — consolidating your student loans on graduation or paying multiple student loans to maximize tax savings from government interest?
3. What happens to government financial loans and support if you choose to take a leave of absence to start a family during medical school or residency?

You'll find the answer to these questions and many others in this chapter, or you can go online at <http://www.rbcroyalbank.com/student/medical>. And while you'll have many important financial decisions to make in the future, you don't have to make those decisions on your own. With special products and services tailored specifically to medical students, as well as RBC Student Champions to assist you, RBC Royal Bank can provide the expertise you need to meet your current financial goals and build a secure future. As you build your medical career, we're here to help you — every step of the way. To find a Student Champion, visit <http://www.rbcroyalbank.com/student/champions>.

## B-2

# THE KEYS TO SUCCESSFUL MONEY MANAGEMENT

You may be wondering — why focus on money management so early in your medical career? The answer is simple — successful money management is essential to help you reach the personal and financial goals you hope to achieve. As a resident, this is the ideal time to develop financial strategies that will start you on the road to long-term financial security.

These strategies can help you make decisions that enable you to balance your immediate financial needs with repaying the student debt you have accumulated — and at the same time start saving for the future.

There are five steps that will form the foundation for successful money management:

- › Controlling the outflow (budgeting);
- › Maximizing the inflow;
- › Consolidating accounts to keep things simple;
- › Consolidating debt to reduce your cost of borrowing; and
- › Minimizing the tax you pay.

We'll go through each one in detail.

## Control the outflow: Budget and track expenses

It doesn't matter whether you make \$7,000 or \$700,000 a year: budgeting (balancing what you make with what you spend) is an essential step to minimizing debt and avoiding financial problems in the future.

Preparing a budget helps you plan how you'll spend your money, so that you don't develop a lifestyle that you can't afford. It also lets you build in essentials you may not have considered, such as a savings plan to set aside money for future goals.

The secret to budgeting is to accurately determine what your income and expenses are each month, so that you have a plan that realistically reflects your personal situation. On the expense front, you'll want to think ahead to the actual expenses you'll be incurring during your residency. For example, if you're used to accommodation costs in a smaller urban centre but plan to do your residency in a major city such as Vancouver, Calgary, or Toronto, you'll need to increase your budget amount accordingly because your accommodation costs will likely be considerably higher.

Filling in the following budget worksheet will help you understand your personal cash inflow and outflow or use our online budget tool at <http://www.rbcroyalbank.com/student/medical/budgetcalculator>.

## Annual Budget Worksheet

	Student/Resident	Spouse	Total Family
<p><b>Income</b></p> <p><i>Record your annual after-tax income from the following sources. If you're unsure of any amount, provide a conservative estimate.</i></p>			
Salary			
Self-employment/business			
Scholarships/ bursaries			
Parental contributions			
Gifts			
Other (e.g., investment income)			
<b>Total income</b>			
<p><b>Expenses</b></p> <p><i>Estimate your expected annual expenses for the items listed. If you're not sure how much to allocate for a budget item, you may want to keep a daily journal of how you spend your money. Record every expense for an entire month, and then project each expense item into an estimated annual amount.</i></p>			
<p><b>Food and housing</b></p>			
Food			
Mortgage or rent (annual)			
Property taxes and property insurance			
Power/heating/water/cable/phones/pager/internet/security alarm			
Housing maintenance/condo fees			
Refurbishing/renovating/moving costs			
Other			
<b>Total food and housing</b>			
<p><b>Transportation</b></p>			
Annual lease or car loan payments			
Insurance, licence, and registration			
Gasoline			
Maintenance and repairs			
Public transportation and parking			
Other			
<b>Total transportation</b>			
<p><b>Education</b></p>			
Tuition			
Books, subscriptions, instruments			
Exam fees			
Professional fees			
Malpractice insurance			
Conferences			
<b>Total education</b>			

<b>Annual Budget Worksheet (continued)</b>	<b>Student/Resident</b>	<b>Spouse</b>	<b>Total Family</b>
<b>Investments and savings</b>			
<i>RSP contributions</i>			
<i>Other investments</i>			
<i>Emergency fund</i>			
<b>Total investment and savings</b>			
<b>Transportation</b>			
<i>Line of credit payments</i>			
<i>Student loan payments</i>			
<i>Insurance premiums — life, health/dental, disability, critical illness, etc.</i>			
<i>Prescriptions/vision care</i>			
<i>Clothing/dry cleaning/grooming</i>			
<i>Clubs/fitness, hobbies/entertainment, dining/restaurants</i>			
<i>Gifts/charitable contributions</i>			
<i>Child care</i>			
<i>Professional services (e.g., accountant)</i>			
<i>Vacations</i>			
<i>Other</i>			
<b>Total lifestyle/loans</b>			
<b>Total income</b>			
<b>Cash flow summary</b>			
<i>Total income</i>			
<i>Less: Total expenses</i>			
<b>Surplus (deficit)</b>			

### Prescription for Budget Success

The budget worksheet provided here is a great place to start developing your personal budget spreadsheet. Here are some tips that can help make the budget process a success for you:

- › **Regularly update income and expenses.** Reviewing your income and expenses at least monthly allows you to catch overspending early, before it becomes a problem.
- › **Use a spreadsheet program.** There are many automated budget programs available for home use that make keeping track of your monthly budget more time-efficient and give you detailed breakdowns of how your actual spending compares with your monthly budget.
- › **Look for small savings.** Create budget room by looking for savings on regular small expenses. Even giving

up your daily latte and muffin, or brown-bagging your lunch one day a week, can yield surprising savings, particularly if the money you save goes toward reducing your debt or investing.

- › **Create a paper trail.** Using your debit and credit cards (provided no fees or interest charges apply) takes some of the guesswork out of expense tracking. Even just a day or two after making a cash purchase, it can be difficult to remember what you spent your money on. Debit and credit receipts allow you to record your expenses at a later date that's convenient for you. An added benefit to using credit cards is that they offer purchase protection, which means that you won't be on the hook for charges made if your card is stolen and used by someone else.

If you have a budget surplus, you're in the fortunate position of having more money each month than you need. You may want to increase your monthly investment amounts or pay down your loans more quickly.

If you have a budget deficit, you'll need to look at ways to cut expenses. Can you reduce any of your lifestyle expenses? If not, you may need to decrease the amount you contribute to your investments, or perhaps reduce the monthly payments on your loans.

Once you've developed your budget, recording expenses on a regular basis is a great way to ensure you stay on track financially, and it allows you to make adjustments if an item exceeds your budgeted amount. It's normal to go over-budget on certain items from time to time, but if it happens on a regular basis, you'll want to consider whether you need to adjust your budget — or adjust your spending.

## Maximize the inflow: Apply for scholarships and bursaries you may be entitled to

The use of scholarships and bursaries that don't require repayment can significantly reduce your debt load at graduation. You may think your scholarship application will be refused, but don't be your own selection committee. Apply even if you're not sure you're eligible. And remember — not all scholarships are based on academic achievement. The financial aid office at your medical school will be able to tell you the criteria used in awarding scholarships and bursaries, and can help you apply for the awards best suited to you.

Many medical schools offer scholarships and bursaries automatically, so you may not even need to apply for them. The financial aid office of your medical school will be able to tell you if that is the case. There may also be funds available for emergency loans if an unexpected cash crisis occurs.

Some large employers offer scholarships to children of their employees, as do some trade unions or fraternal organizations. Ask your parents to check on your potential eligibility for any such funding.

Many people overlook smaller scholarships or bursaries, thinking they're not worth the bother of applying. But even small amounts can make a big difference in reducing your overall student debt load. A \$500 bursary may not seem like much when you're graduating with a debt load of thousands of dollars, but it's still \$500 that you won't need to borrow — and more than \$500 that you won't have to repay, once interest is factored in. Assuming a loan interest rate of 6%, that \$500 bursary would save you \$150 in interest over five years.

You can find comprehensive information about scholarships, grants, and bursaries at <http://www.canlearn.ca>. To find out about RBC Royal Bank Scholarships for medical students, contact your RBC Student Champion.

## Keep it simple: Consolidate accounts

As we've seen, tracking income and expenses is a key part of smart money management. But for a busy student or resident, it can be hard to find the time — especially when you have multiple savings, credit cards, and investment accounts spread across several institutions.

Fortunately, there's an easy solution: consolidate. Having all of your financial accounts with one institution makes it easier to monitor and track income and expenses.

There may be other benefits as well. Many accounts will pay higher interest rates on higher balances. And fewer accounts may mean fewer fees.

## Reduce your cost of borrowing

As a medical student, you could have debt from a number of sources, including provincial or federal student loans, bank loans, bank lines of credit, credit card debt, and car loans. If you have outstanding debts from several sources, you may want to consider consolidating them into a single line of credit. There are two key advantages:

- ▶ **It's simpler.** Paying one bill a month is more convenient than paying multiple bills — and that makes it easier for you to understand the loan terms and stay on top of your payments, so you're less likely to inadvertently miss a payment date.
- ▶ **You may pay less interest.** Lines of credit generally offer a lower interest rate than fixed term loans, and they offer a much lower interest rate than credit cards. Lines of credit can also provide a convenient source of cash when you need it, without having to reapply for a loan whenever you need money, so they can be particularly useful in a financial emergency. In addition, a Royal Credit Line® offered by Royal Bank of Canada currently allows you to defer your principal repayments until 12 months after you complete your residency — when you'll likely be earning a much higher salary and have a much stronger cash flow.

There are two exceptions to the general rule in favour of consolidating debt. If you have government-sponsored student loans, the interest you pay may generate a tax credit, so you may want to maintain those loans. And if you've received a low-interest loan from a manufacturer as an incentive for a large purchase, like a car or furniture, you may want to keep that loan separate as well.

## Pay less tax: Take full advantage of tax-saving opportunities

As a medical student or resident, you may be entitled to a number of tax-saving opportunities. Review the following strategies to make sure you're not overlooking deductions and credits that could save you hundreds or even thousands of dollars each year. The following reflect the federal rules; however, provincial rules are generally comparable.

Another opportunity to take advantage of tax-savings is claiming tax deductions relevant to caring for a child. This opportunity would be available to Lindsey and Rob from Case 1. For more information on the deductibles related to child care, see Section I: Case 1.

- ▶ **Claim tuition, education and textbook credits.** You are entitled to a tax credit of 15% of the following amounts: eligible tuition fees incurred, an "education amount" of \$400 for each month you attend medical school full time, plus a textbook amount of \$65 for each month that you qualify for the \$400 education amount.

If you don't need to claim the total of these amounts to reduce your federal tax to zero, you can carry forward the unused amounts to claim a tax credit in future years, or transfer up to a maximum of \$5,000 of the unused amounts to a supporting relative, such as your spouse, parent or grandparent. Keep in

mind that if you carry forward any portion of the unused amounts, you cannot transfer it to someone else in a future year.

Ruth had heard classmates discussing saving receipts for income tax. This could be helpful because she can receive a tax credit or carry forward this credit that can be used against current or future income.

› **Claim moving expenses.** If you move within Canada, at least 40 kilometres closer to a new work location to complete your residency, you can deduct many of your moving expenses from the income you will earn in that new location.

Eligible expenses include personal travel costs associated with the move, meals and accommodation costs while en route, moving and storage charges, and temporary accommodation costs for up to 15 days. You can also carry forward these deductions to a future year.

› **Take advantage of transferable tax credit amounts.** The tuition, education and textbook amounts are transferable. So if you don't need these amounts to reduce your tax payable to zero, your spouse can use them to reduce his or her tax.

It works the other way round, too — that is, if your spouse has credit amounts that he or she doesn't need, you can use them to reduce your taxes.

### The True Cost of Paying with Plastic

Credit cards can be great. They're convenient, widely accepted, easy to use and offer some fraud protection. But if you're in the habit of carrying a balance, they can also be extremely expensive.

For example, suppose you decide to take the summer off and travel Europe. You figure it will cost you about \$5,000. You don't have the cash, but there's plenty of room on your credit card.

But if your credit card charges interest at an annual rate of, say, 18%, your \$5,000 balance will rack up interest charges of \$900 a year. That's an expensive way to pay for your trip.

## B-3

# SAVING FOR YOUR FUTURE

At this early stage of your medical career, your primary focus is probably on reducing your debt. While this is certainly an important objective, now is also the best time in your life to start building wealth for your future. And while it may seem that you have no excess funds and that investing is a far-off goal, a review of your budget and your spending habits might prove otherwise. You can start to invest with as little as \$25 per month.

As a younger investor, you can take maximum advantage of two of the most powerful wealth-building tools available: time and compounding. Even small amounts set aside regularly at this stage can grow to a significant sum over time.

Although your salary as a resident will be relatively modest compared with what you'll earn later in your career, you can use time to your advantage and make the most of your earnings. And developing a commitment to savings at this stage in your career is a habit that will stay with you and enhance your long-term financial security as you move through the different stages of your career.

Where to begin? By focusing on three simple strategies, you'll find yourself well on your way to a secure financial future:

- › Commit to a regular savings schedule.
- › Contribute to an RSP.
- › Make your money work for you.

### Commit to a regular savings schedule

You can make saving easy by “paying yourself first” — with an automatic savings plan. Paying yourself first means having part of your paycheque deposited directly into a savings or investment account, whether that's an RSP or not, depending on

your savings objectives. This reduces the likelihood that you'll spend the money elsewhere, and it allows you to allocate part of each paycheque to your specific financial goals.

As your salary grows, you can increase the amount you set aside, so that the same percentage of each paycheque is automatically deposited. And as you reduce your debt load, you can increase the percentage of your paycheque that is automatically deposited. This allows your savings to keep pace with your financial needs, which are likely to increase over time.

Don't worry if you can contribute only a small amount of each paycheque. With time on your side, you'll be amazed at how quickly your savings can grow.

### Contribute to an RSP

As a student or resident, your retirement is easily 30 or 40 years away. In fact, you probably haven't given it much thought.

But even though retirement is not top of mind, you should definitely be thinking about contributing to a registered Retirement Savings Plan (RSP). An RSP is one of the best tax breaks available to Canadian wage-earners, and a powerful saving tool.

An RSP provides two main advantages:

- › **Tax-deductible contributions.** You can deduct the amount of your RSP contribution from your income in the current year. A \$1,000 contribution will generate a tax benefit of \$300 if your marginal tax rate is 30%.
- › **Tax-sheltered investment earnings.** The investment income you earn inside your RSP isn't taxed until it's withdrawn. Because the earnings compound tax-deferred, they grow much

more quickly than in a non-registered account. And starting early pays off. The more time you have to benefit from the tax-sheltered growth, the more quickly your savings will grow.

There are limits on the amount you can contribute to an RSP each year. For 2011, your RSP contribution limit is 18% of your 2010 earned income or \$22,450, whichever is less. If you can't contribute the maximum, the unused contribution room can be carried forward indefinitely, increasing the amount you're allowed to contribute in future years.

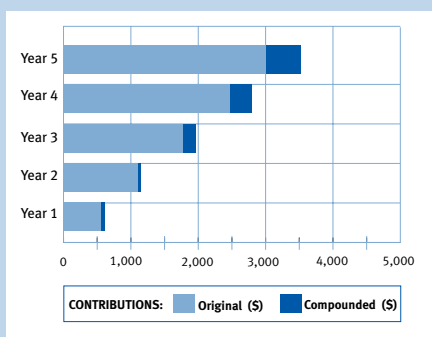
In addition, your RSP doesn't have to be just for retirement — it can also help you buy your first home. Under the Home Buyers' Plan, first-time homebuyers can borrow up to \$25,000, tax-free, from their RSPs to buy or build a home. For a couple, that can mean \$50,000 toward their first home.

Some restrictions apply, and the amount must be repaid over 15 years. If you miss a repayment, that amount will be included in your taxable income for the year.

You may also withdraw from your RSP up to \$10,000 per year, tax-free, to a maximum of \$20,000 in total, under the Lifelong Learning Plan, to finance full-time training or postsecondary education for yourself or your spouse. The withdrawals can only be made over a maximum period of four calendar years. The amount withdrawn from your RSP must be repaid over a 10-year period.

### Modest Amounts Can Grow Quickly

With time and tax-deferred compound growth working for you, even small amounts add up fast. For example, if you set aside just \$50 each month for your RSP, earning 6% annually, you'll have more than \$3,500 in your account after five years. This amount does not include any tax refunds you may have received as a result of your contributions.



Source: [http://www.rbcfunds.com/tools/mpp\\_calculator.html](http://www.rbcfunds.com/tools/mpp_calculator.html)

### Time Your Deductions

There's no rule that says you have to claim your RSP deduction in the year that you make the contribution. This gives rise to a strategy that can increase the tax benefit associated with your contribution.

Here's how it works. Suppose your marginal tax rate this year is a modest 20%. If you contribute \$500 of eligible contribution to your RSP and claim a deduction, you'll see a tax benefit of  $\$500 \times 20\% = \$100$ . But look what happens if you make the contribution but don't claim a deduction. Instead, you claim it next year, or any time in the future, when your marginal tax rate is higher, say 45%. Your \$500 contribution will now generate a tax benefit of  $\$500 \times 45\% = \$225$ . And in the meantime, it will have been growing, tax deferred, in your RSP.

### Make your money work for you

Committing to a regular savings plan is an important first step toward financial security. But simply saving money isn't enough. Savings accounts typically pay interest of only 1% or 2% annually. If you want your money to work harder, and grow more quickly, you need to invest it.

Investing means setting up a diversified portfolio with investments in each of the three main asset classes: equity, fixed-income, and cash.

Each asset class has a different purpose: equities provide long-term growth but are subject to short-term fluctuations in value (volatility); fixed-income investments provide regular income payments but may not be guaranteed; cash provides security.

Since you're just beginning your medical career, growth investments such as equity mutual funds should play a key role if you're saving for a longer-term goal. That's because growth investments offer potentially higher returns, and you should have enough time to ride out short-term losses caused by the ups and downs of the stock market.

You also need to consider your level of comfort with investment risk. Growth investments, such as equities, are volatile. While it's natural to want to avoid risk, with investments, greater short-term risk brings the potential for great long-term rewards. So choose a level of risk that allows you to meet your investment goals — and lets you sleep comfortably at night.

## Anatomy of Investment Classes

**Equities**, or stocks, represent an ownership interest in the company that issues them. Company earnings may be distributed to investors (shareholders) in the form of dividends. The value of the shares fluctuates, giving investors an opportunity (they hope) to sell them for more than they paid. Stocks are generally riskier than bonds or cash investments over the short term, but historically have provided the highest investment returns over the long term. Dividends and capital gains are taxed at preferential rates if held in a non-registered account.

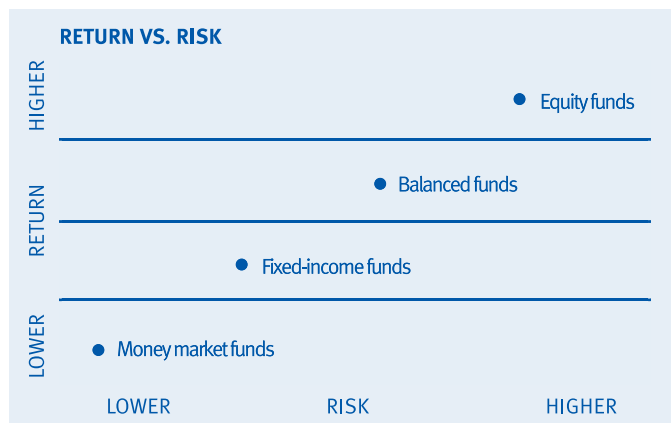
**Fixed-income** investments (bonds, debentures, and so on) are debt securities. Essentially, the investor lends a specified amount (the principal) to the company or government that issued the fixed-income investment for

a specified length of time (the term). At the end of the term, the investor gets back the principal amount. In the meantime, the issuing body pays interest to the investor, in return for the use of his or her money. Investing in fixed-income investments is usually less risky than investing in stocks, but the returns are generally lower.

**Cash** investments include savings accounts, guaranteed investment certificates (GICs) and treasury bills. Money market mutual funds, while not guaranteed, are considered cash investments because they provide low risk and easy access to your funds. Cash investments are designed to return your money, with interest, in less than a year. With cash investments your principal is secure, but you'll usually receive lower returns than you would from investing in the market.

## Understanding the relationship between risk and reward

As an investment's potential return increases, so does its risk. It's important to find the balance of risk and return that's comfortable for you.



Unless you have experience buying and selling individual equities and bonds, you may be more comfortable investing through mutual funds, at least for the time being.

Mutual funds pool the individual investments from many investors into a single portfolio, which is then managed by a professional portfolio manager. Each mutual fund has an investment objective, and this objective determines the type of investments that the manager buys for the fund (equities, fixed income, cash or a mix of the three).

RBC Royal Bank offers a wide variety of mutual funds, and your RBC Student Champion can help you choose the right funds to meet your investment goals.

## Three Tenets of Financial Success

- 1. Save regularly.** Save regular amounts over time, and reap the rewards of “paying yourself first.” This strategy also allows you to build “dollar-cost-averaging” in so that you always buy more when the price is low and buy less when the price is high.
- 2. Diversify.** Maintain a well-diversified portfolio with the growth potential you need to achieve your goals. Mutual funds are an excellent way to achieve this.
- 3. Maximize your tax-sheltered savings.** With its combination of tax-deductible contributions and tax-sheltered savings, your RSP should remain the focus of any long-term savings plan.

As a new doctor, your ability to earn an income is your most important asset — and it’s important that you protect that asset from financial risk. Insurance allows you to protect your future, your family, and your property from the financial consequences

of unexpected events. With adequate insurance coverage, you can help protect the financial benefits that a medical career can provide, even in the face of worst-case scenarios.

Insurance product	How it works	Benefits to you
<i>Disability income protection insurance</i>	Pays a monthly benefit if you’re unable to work because of illness or injury	Payments allow you to maintain your standard of living even if you are disabled and unable to work
<i>Critical illness insurance</i>	Pays a lump-sum benefit on the first diagnosis and survival of a serious medical condition (e.g., cancer, heart attack) covered by your policy	Gives you financial flexibility to cover additional costs associated with an illness, or to pursue lifestyle goals during or after recovery
<i>Life insurance</i>	Pays a tax-free, lump-sum amount to your beneficiaries upon your death	Assists your beneficiaries in paying off your debt if they choose to do so and maintaining their standard of living in the event of your death

## Disability income protection insurance

Disability income protection insurance provides a monthly benefit if you’re unable to work because of illness or injury. Why would you want to purchase it now, when you’re young, in good health, and have a promising future ahead of you?

The answer is simple – the right time to buy disability income protection insurance is when you are healthy. If you wait until you need disability benefits, it will likely be too late to get coverage, as your application for disability coverage will often be denied or carry significantly limited coverage. As a young doctor, you are at the point of greatest risk because a disability could end your career even before it begins. Disability income protection insurance helps protect your tremendous future income potential.

In addition, there are a number of benefits to applying for disability income protection insurance coverage right now, before your medical career begins:

- ▶ Premium rates may be lower at younger ages.
- ▶ Some offers allow you to purchase coverage with no need for a medical exam or blood tests.
- ▶ For additional costs and depending on plan type, you may have the option of guaranteeing future coverage increases, without medical evidence, to match your future career growth.
- ▶ You may qualify for special premium discounts.

As a medical professional, you’re familiar with how often people are disabled and prevented from working. For adults in Canada of core-working age (25 to 54), 1.2 million are currently disabled (over 9% of the working population), according to a 2004 study by Social Development Canada.

The amount of disability benefits you can apply for is based on several factors, one of which is your income at the time of application. However, as a medical student, some plans recognize that you have not yet reached your full earning potential. They therefore allow you to purchase a greater benefit

than you would otherwise qualify for. In addition, if you pay for your policy with personal (after-tax) funds, as is the custom for most medical professionals, any disability benefits you receive might be tax-free. There are no limits on how you could use your disability benefits.

If you start a medical practice, you may also want to consider buying professional overhead expense insurance, which can pay for your office expenses if illness or injury prevents you from working.

Disability plans can vary widely, so be sure you understand how the coverage works with regard to the following:

**Waiting period.** Once you’re disabled, how long will you have to wait before the benefits start? Waiting periods can vary from 30 days to two years. The longer the waiting period, the lower your premiums.

Andy from Case 5 was stuck with a needle. Assuming he met the eligibility requirements of the disability insurance policy, he may have to wait a period of time before he can process a claim.

**Payment period.** Some policies pay benefits for two or five years. Others will continue to pay right up until age 65. Age 65 is by far the most popular benefit period, as it is the only payment period that pays a benefit for your entire working career.

**Definition of disability.** This is probably the most important provision to review. The definition of disability in your policy will impact the amount of premium you pay. There are three common types of disability definitions. With “any occupation” coverage, you’re considered disabled if you’re unable to work at any job for which you’re qualified by education, training, or experience. With “regular occupation” coverage, you’re considered disabled if an illness or injury prevents you from performing the duties of your regular occupation, and you are not working elsewhere. “Own occupation” coverage pays a benefit when you are disabled in your regular occupation, regardless of whether or not you are working elsewhere.

## Critical illness insurance

As a medical professional, you might have seen first-hand how breakthroughs in medical treatments have increased survival rates significantly. Today, people often routinely recover from conditions that would have been fatal in the past.

For example, the Heart and Stroke Foundation of Canada estimates that 85% of all people who have a stroke will survive. The downside, unfortunately, is that 40% of stroke victims are left moderately to severely impaired. Ten percent are so seriously affected that they require long-term care.

As you can imagine, the financial repercussions of a critical illness can be devastating. And while disability benefits may replace a portion of lost income for a period of time, they may not be enough to cover the extra costs that can come with a critical illness — such as home renovations you might need to accommodate a wheelchair.

The type of insurance that would assist Andy from Case 5 in paying his student debts is Critical Illness Insurance. More information on the applicability of this type of insurance to Andy's case can be found in Section I Case 5.

Critical illness insurance was designed specifically to bridge this gap. It pays a lump-sum benefit on the first diagnosis of a serious medical condition covered by your policy. You must survive the diagnosis for a specified time for the benefit to be paid. Coverage amounts range from \$25,000 to \$2 million. Unlike disability insurance, you'll receive your critical illness insurance benefit even if you're able to work and you continue receiving your salary. You can use the benefit any way you want — to help pay down your debts including loans or mortgage, hire a full-time medical caregiver or seek medical treatment outside Canada, for example.

The medical conditions covered by a critical illness policy vary depending on the insurer. Almost all policies cover certain types of cancer, heart attack, stroke, and coronary artery bypass surgery. Many critical illness insurance policies will cover the following conditions: kidney failure, major organ transplant, blindness, deafness, loss of speech, paralysis, multiple sclerosis, coma, Parkinson's disease, Alzheimer's disease, loss of limbs, severe burns, occupational HIV infection, motor neuron disease, benign brain tumour, aorta surgery and heart valve replacement. Be sure to review any policy you're thinking of buying to determine exactly what conditions are covered.

## Features to Look For in Your Disability Income Protection Insurance Coverage

Disability income protection insurance is readily available. As a doctor, or doctor in training, it's important to have comprehensive coverage that can accommodate a potentially high level of earned income. When comparing policies, look for the following features:

- › Competitive pricing for medical professionals that is guaranteed
- › Guaranteed policy terms
- › Choice of plan features
- › Option to increase coverage
- › Simple enrolment
- › Worldwide portability
- › Individual policy ownership
- › 24-hour coverage
- › Cost-of-living benefit
- › Coverage for HIV and Hepatitis B and C

## Life insurance

Life insurance pays a tax-free, lump-sum amount to your beneficiaries upon your death. This cash payment can help ensure that your family maintains its standard of living if you pass away. As a doctor with a potentially high financial debt load, life insurance also provides your family with the means to pay off these outstanding debts or cover final expenses such as funeral costs. If you have few other assets, life insurance enables you to leave a legacy to your loved ones.

There are two main types of life insurance: term and permanent.

**Term life insurance** is designed to provide you with insurance protection for a specific period of time. If you die during that time period, your beneficiaries will receive a tax-free benefit. Term life insurance is a good choice when you are young and starting your career, because the premiums are usually lower than for permanent insurance, and you can get a lot of coverage for a relatively low cost. Your premiums will increase, however, at the end of the term if you choose to renew your insurance for another term.

**Permanent insurance**, as the name implies, stays in place for your lifetime once you purchase it. There are two types of permanent insurance: whole life and universal life. With whole life insurance, the premium is fixed when you purchase the policy. Premiums are usually paid in annual installments, which do not increase over the life of the policy. Universal life insurance combines life insurance with a tax-deferred investment component. Essentially, the premiums you pay in the early years are more than the actual cost of insuring you. The excess grows, tax-deferred, and you may be able to use it later to take a "holiday" from paying premiums, increase the policy's death benefit or borrow against it.

## How Much Coverage Do You Need?

To calculate how much life insurance you need, you need to consider:

- › The amount needed to pay off all of your debts
- › Any final expenses and taxes that will be owing on your death
- › The amount your family will need to maintain its lifestyle
- › The education costs for your children

## Other important types of protection

### Professional liability coverage

One of the most significant financial risks you may face as a medical professional is a malpractice claim against you.

Awards and settlements for successful malpractice lawsuits can be in the millions of dollars. Even if a claim is without merit, you must still bear the cost of defending it — an expensive proposition in almost any case.

Professional liability coverage can protect you against the cost of defending and settling liability claims arising from the treatment of patients. Most Canadian physicians cover their medical malpractice needs with the Canadian Medical Protective Association (CMPA — see <http://www.cmpa-acpm.ca>). In fact, about 95% of doctors practising in Canada are members of this association.

The CMPA's reserve fund provides for the costs of future judgments, settlements, legal expenses and administration for claims related to all the medical care given by you in the current year and in the past. So even if you have stopped practising, and a claim arises from a procedure performed 10 years earlier, you will still be covered as long as the medical procedure was performed while you were a CMPA member.

CMPA membership fees vary by region and by the type of work that you practise. They are set annually, based on a review of claims and costs, estimates of liabilities for the year and projections of the income that your fees will generate over a period of years. While the premium costs can be high, most provincial governments offer a significant premium reimbursement package that is specialty-specific.

There are a wide range of medical practice options open to you, and the CMPA may not cover every work situation, so be sure to check the CMPA protection options carefully to ensure you are covered. If you provide professional services that are not covered by the CMPA, you should obtain additional professional liability insurance through a private insurer.

### Automobile insurance

If you own or lease a car, you also need automobile insurance, which is required by law in all Canadian provinces. Here are some tips that can help you reduce your insurance premiums:

- › **Check rates before you buy or lease.** Car insurance rates are based on the claims history for the driver, and these rates can vary by thousands of dollars depending on the car.
- › **Insure all vehicles with one insurer.** Many insurers offer a “multi-vehicle discount” if you insure more than one car on the same policy.
- › **Use the same insurer for your auto and property insurance.** Many insurers offer premium discounts if you have both your car and your home insurance with them.
- › **Install an anti-theft device.** Your premiums may be reduced if you install an anti-theft device — and your car is less likely to be stolen.

### Home insurance

Whether you own or rent a home, it's important that you have home insurance. Not only does home insurance cover your property if it is damaged, but it covers you for legal liability if your actions harm others, whether or not those actions occur in your home.

In general, there are two types of policies. Broad policies cover the building for all risks, other than the exclusions listed, while contents are covered for the named perils listed. Named perils include fire, theft and vandalism. Comprehensive policies cover the building and contents for all risks, other than the exclusions listed.

Make sure your policy covers everything you want to protect. If you have special property — such as computers or musical instruments — you may need to buy additional coverage to be fully protected.

### Out-of-province health insurance

If you are travelling outside Canada, either for pleasure or to study abroad, we recommend buying travel insurance before you leave home. Your provincial health insurance plan may provide only limited coverage for emergency medical treatment and hospital costs outside Canada.

And if you will be away from your home province for a considerable time period (usually six months or more), you may have to apply to your provincial health insurance plan to maintain provincial coverage during your absence. If your spouse and children are going with you, they may also apply to have their coverage maintained.

As a medical professional, the financial dreams for your future may be more extensive than for many Canadians. One of the best ways to realize those dreams is to develop a plan that clearly defines your goals. Some of those goals will be short term, like buying a car and paying off your student debt. Others will be medium term, like saving for your children's private or postsecondary education or buying a vacation property. And others will be long term, like saving for retirement.

## Opening a practice

Opening a practice can signal the start of a satisfying and lucrative career, but there are a number of issues to consider. Before you open your practice, here are some decisions you will need to make:

- ▶ **Community.** Draw up a list of communities you are considering so you can investigate them. There are a number of factors to consider, from professional opportunities, to schooling for your children, to meeting the personal needs of you and your family.
- ▶ **Size of practice.** Do you want to work by yourself, in a small group, in a large group, or in a practice with multiple specialties? If you prefer a group practice, make sure that your practice style is compatible with the other members and that you share similar goals for the practice.
- ▶ **Office location.** Do you want to lease or buy property? Are you willing to build office space or undertake substantial renovations, or do you want existing office space? Is the location you have chosen convenient so that you can attract new patients?

There are numerous other steps involved in opening an office — including hiring office staff, obtaining all the necessary licences, and renting or buying the necessary equipment and furniture. You'll find a handy checklist at <http://www.rbcroyalbank.com/professionals>. In the navigation bar on the left, see Resources for Professionals.

## Financing your practice

There are a number of financing options available that can be tailored to your needs. These include:

- ▶ **Term loans.** Term loans are ideal for funding the purchase of long-term assets or equipment necessary to your practice. You can also use them to finance business acquisitions or expansions, or to refinance existing debt. They are available with both fixed and variable interest rates.
- ▶ **Operating line of credit.** An operating line of credit gives you easy access to cash for your daily cash-flow needs. To reduce interest charges, you can arrange to have your operating line automatically paid down with any surplus from your deposit account balances on a daily basis. If your professional practice is unincorporated, you may be able to take advantage of “cash damming.” This tax-planning strategy converts the interest on your personal debts — such as student loans, mortgages and other personal loans — into tax-deductible business expenses. To implement this strategy, the gross revenue generated by your professional practice is used to pay off your personal debts. Then, to cover your ongoing business operating expenses, you use a line of credit or other loan facility. In effect, your personal debt is replaced by business debt, which makes the interest costs tax-deductible.
- ▶ **Business overdraft protection.** Overdraft protection gives you the peace of mind of knowing that your cheques will be honoured if you're overdrawn, so that you don't have to worry about your day-to-day cash flow.

Before you approach a bank for financing, you should develop a business plan. A business plan is a document that provides a

financial analysis of your practice and helps the bank evaluate your financial needs.

Your business plan will describe your services, analyze your potential source of patients, describe your marketing plans and project your income and expenses from the practice.

If you're unfamiliar with business plans, and don't have a friend or family member with business planning experience to act as a resource, you may want to hire a consultant to help you prepare your plan. Once your plan is prepared, it is a valuable tool for making sure you are on track to reach your practice goals, and it should be updated annually.

Sanjay from Case 8 wondered about how physicians who practice in a private office setting finance their business. Term loans, operating lines of credit and business overdraft protection are financing options available to tailor to the needs of physicians with their own offices. Sanjay might also be interested in the process of incorporating private practices.

## Incorporation and your practice

Traditionally, doctors have operated their medical practices as sole proprietorships and were prevented from enjoying the benefits of incorporation available to other business owners.

But with changes in the laws governing incorporation over the past several years, all provinces now permit doctors to incorporate. And while incorporation isn't the right answer for every doctor, it can have significant benefits.

If you incorporate and your practice generates \$500,000 or less in taxable income (meaning income after expenses like salary and rent), any earnings that you retain in your company are taxed at a rate of about 18%. (The exact rate will depend on your province of residence.)

These retained earnings can eventually be paid out as dividends to you or another shareholder. In the meantime, they are taxed at a fairly low rate and can remain in the corporation and be invested. And by paying out dividends in a year when you or the other recipients have little income from other sources, they may be taxed at a lower rate. You might even structure your corporation using different classes of shares, with one class of shares for you and another class for another family member, and arrange dividend payments to attract the least amount of tax.

While incorporation can be a great benefit to many doctors, it may not be appropriate for you. In general, incorporation is not beneficial if you are salaried, have a relatively low income, or need all of your ongoing income to pay salaries and expenses.

And unlike other business corporations, a professional corporation for a doctor does not protect you personally against professional liability claims, so you must still ensure you have malpractice and other liability coverage you need in place. Be sure to consult with a tax professional, and your provincial College of Physicians and Surgeons, before making the move to incorporate.

## Your RBC Student Champion Can Help

Your RBC Student Champion is here to help you identify — and reach — your financial goals. As your primary contact, your RBC Student Champion will provide you with banking, credit, and other tailored financial solutions to meet your needs.

And as you complete your residency and start your professional career, RBC Royal Bank will continue to provide you with a full range of personal and business products and solutions designed for you.

While some goals are shared by most people, like buying a house, some of your goals will be specific to your medical career, like owning a practice. Here are some goals — both personal and professional — that you may have, and some tips that can help you achieve them. You can also locate Student Champions online, at <http://www.rbcroyalbank.com/student/champions>.

## Change in career path

In the past, professionals graduated from school and worked steadily until retirement. Today, career paths are more circuitous, and it is increasingly common for professionals to step off the path, or change direction entirely. Some professionals take leaves to raise a family, and others decide to explore other opportunities.

### Starting a family

Raising children usually involves one or both parents taking time off work — a difficult task for busy medical professionals who are building a practice, need the income and are often self-employed. Planning in advance for an income reduction can reduce financial stress during a maternity or paternity leave.

If you start a family during your residency or while you are employed as a physician, you will be eligible for maternity or parental leave benefits under the federal government's Employment Insurance plan. Birth mothers are entitled to 15 weeks of maternity leave, and biological and adoptive parents (mother or father) are entitled to 35 weeks of parental leave benefits. The benefit amount is 55% of your average earnings up to a yearly maximum insurable amount of \$44,200 (in 2011). This means you can receive a maximum payment of \$468 per week.

If you are self-employed, you are not eligible for government maternity or parental leave benefits. However, your provincial medical association may provide both pregnancy leave benefits and parental leave benefits to physicians who have practised medicine or completed a residency program.

One of the advantages Lindsey from Case 1 may consider is guaranteed financial support while taking maternity leave during residency.

If you want to take an extended leave while you raise a family, the best way to realize that goal is to begin planning well in advance so that you can start a savings fund and reduce your debt.

Take care to not overextend your financial obligations. Ask yourself whether your family could carry your current debt load for one year on one salary. Try living on one salary to see if it is feasible. Consider any cost savings you may achieve by staying home — for example, you may be able to save on childcare costs, or you may need only one car.

If you know that there will still be a gap between your family income and your expenses, consider whether part-time work might be a solution. Many people find that working part-time allows them to enjoy the benefits of having a career while maximizing their time with their families.

### Taking a sabbatical leave

While a career in medicine can be both rewarding and challenging, many professionals make strategic use of leaves or transition periods to undertake further study in their professions. Some use the time to provide medical services abroad, and others choose to travel for pleasure. Whatever the reason, a sabbatical leave can be an excellent opportunity to recharge your batteries and explore new opportunities.

Some employers offer sabbatical programs that allow you to self-fund a leave on a tax-advantaged basis. For example, you can draw three years' salary over four years and take the fourth year off. This allows you to reduce the taxes you pay in each year, and provides you with an income during your year off — and it does not involve any extra expense for your employer.

An unfunded leave requires a separate savings and investment strategy. To avoid further debt obligations, you'll need to save now for a future leave to avoid increasing your current debt load. Again, advance planning is the key to realizing this goal. Calculating the costs involved well before your actual leave starts lets you set money aside to pay for your sabbatical.

## Financial security: The ultimate goal

How much does it take to provide financial security? A hundred thousand dollars? A million? There is no single answer. The amount of money needed to achieve financial security will vary by individual.

At its most basic level, financial security simply means having the resources you need to make life decisions and live your desired lifestyle without worry. Financial security can provide you with a number of career and life options, including early retirement, career flexibility and the freedom to pursue other interests. The earlier you realize financial security, the earlier those options are available to you.

One of the biggest obstacles that may stand in the way of your financial security is the difficulty you may have living within your means. At this stage of your career, when you have been managing for a long time as a low-income student, it is hard to imagine that you may have trouble living on a doctor's salary.

The problem many professionals face is that they borrow extensively to finance their lifestyles. Because of their high salaries, it is easy to arrange financing — and easy to become overextended.

For example, if you take on a \$750,000 mortgage, you'll be paying more than \$4,300 a month in mortgage payments — or more than \$52,000 a year — based on an interest rate of 5% for 25 years.

You'll also be paying more than \$558,000 in interest charges over that time period, in addition to paying back the principal

amount. That means payments of \$1.3 million in total. If you add car payments, a vacation home, and private school for your children, it can be difficult to keep up, never mind building wealth for the future.

One of the dangers of over-leveraging yourself is that you are required to keep working simply to pay for all the debt. That limits the options available to you — including the option of retiring early.

This doesn't mean that you shouldn't buy an expensive home or a vacation property, but before you do, examine your financial situation closely to see whether you can really afford it, or whether the cost to your financial security is too high.