CHAPTER 37

Financial and Estate Planning

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I have been poor and I have been rich. Rich is better.
Sophie Tucker

Personal financial planning should be considered a priority for all optometrists. A well- thought-out financial program can improve the choice of practice options after graduation, make it easier to repay student loans, ease the achievement of financial goals, and facilitate future decision making. Financial planning refers to managing your business through economic cycles and varying states of growth so that you are poised for future financial success. There is no doubt that the unpredictability of the United States economy, as well the impact of the global economy, can have a significant impact on business owners, both as contributors to the economy and as consumers. Financial planning should not be a response to events such as paying bills, reconciling a monthly bank statement, or filling out an annual tax return; these are examples of the results of previous financial dealings and are reactive in nature. Instead, financial planning should be proactive and anticipate future events; thus it is an ongoing, iterative process of identifying personal short-term, intermediate, and long-term goals and creating a plan to navigate through the ebb and flow of a new world economy to accomplish wealth accumulation. Specific elements of personal plans can vary greatly. However, there are several key areas of planning that are essential to all optometrists' specific financial needs.

BUDGETING

Planning begins with an analysis of the income derived from employment and of the cost of living, both current and anticipated. Key aspects of these costs include the purchase of a home and the accumulation of a cash reserve.

TAX PLANNING

Because income can be significantly affected by taxes, knowledge of basic tax law, counsel from tax advisors, and appropriate use of tax benefits, write-offs, and strategies are essential.

INSURANCE

Adequate insurance protection involves life, disability, professional liability, and personal coverage sufficient to meet occupational and family needs, without the payment of premiums that are inappropriate, inadequate, or unduly costly.

INVESTMENTS

The selection of investments requires a determination of the level of risk the investor is willing to undertake and a decision as to how much to allocate to income-producing investments versus those with long-term potential growth.

RETIREMENT INCOME

Although retirement seems far away to beginning practitioners, it is a major aspect of personal financial planning. An anticipated retirement lifestyle can be adversely affected by inadequate retirement income, which can be eroded by inflation, recession, and increases in the cost of living.

ESTATE TRANSFER

The transfer of an estate to heirs can involve both lifetime giving (through gifts) and the use of wills to bequeath property at death. An understanding of gift and estate taxation is necessary to conserve assets for heirs and reduce estate taxes paid to government.

SPECIAL CIRCUMSTANCES

Certain events may require special planning; these events may be short term (e.g., maternity leave) or long term (e.g., funding for a child's college education), one time (e.g., purchase of a second home), or ongoing (e.g., improving and enlarging a practice). An emerging area is long-term care of elderly parents, which can be financially devastating if proper planning does not take place.

During a professional career, optometrists will make numerous financial decisions, many of which may not be viewed as being a part of financial planning, but which exert a significant effect on financial well-being. By developing an objective and comprehensive financial plan, the effects of these actions may be better anticipated and the goal of financial independence more readily attained.

DEVELOPING A PERSONAL FINANCIAL PLAN

There are five steps that a beginning practitioner should take to develop a financial plan. First, the practitioner's short-term, intermediate, and long-term goals and objectives need to be determined. Goals set the direction for the financial plan, whereas objectives define the desired endpoint. Goals can be open-ended, but objectives should be clearly focused. Financial objectives should be SMART, as in the following:

Specific—the goals and objectives should fully describe the desired results and should be put in writing.

Measurable—financial objectives should be quantifiable so that progress can be measured at periodic assessments.

Achievable—the resources at hand should be quantified and compared with the resources required to achieve financial objectives, to ensure they are adequate.

Results oriented—financial objectives must be considered outcomes, not just activities.

Time bound—a defined time frame or milestone should be set for all financial objectives and monitored periodically to determine whether they should be revised.

Second, financial counselors should be selected. Tax attorneys, financial planners, and accountants can provide needed direction and advice. Attention should be paid to the advisor's approach to risk and how compatible it is with the practitioner's own: how aggressive or conservative is the advisor toward taxes and investing, and how comfortable is the practitioner with this approach?

Third, current personal, professional, and financial status must be assessed by the practitioner. This evaluation will involve both assets (things of value that can be used as collateral or for credit) and liabilities (short- or long-term debt that may impede investment). Cash flow also must be considered: can it be enhanced or augmented, or can it abruptly end? Are there constraints on income that will prevent access to the resources needed to achieve financial objectives? Insurance coverage must be analyzed to ensure that it is necessary, covers the appropriate eventualities, and is affordable. If there are investments, they too should be reviewed.

Fourth, financial goals and objectives need to be prioritized and a plan of action formulated to achieve them. This plan may require revision of the personal or family budget, the allocation of more funds to savings, the purchase of additional insurance, the liquidation of assets, the refinancing of debt, or an increase in the diversification of assets.

Fifth, progress should be reviewed on a periodic basis or when there is a significant change in revenue, earning ability, or debt level. Periodic evaluations should be performed at least quarterly, and each year a comprehensive assessment should be undertaken to determine whether performance has been satisfactory or whether modifications are required.

As previously stated, key areas in the personal planning process that must be understood in the development of a personal financial plan are budgeting, tax planning, insurance, investments, retirement income, and estate planning.

Calculating Net Worth

After needs have been prioritized, the planning process begins with the calculation of net worth. A net worth statement is a "snapshot" of a practitioner's financial status; net worth is determined by subtracting liabilities from assets. To calculate net worth, all assets are listed on the statement at their fair market value. Assets include possessions that can be sold or otherwise converted into cash, such as savings and checking account balances, stocks, bonds, certificates of deposit (CDs), shares in mutual funds, the cash value of life insurance policies, personal residence, individual retirement accounts, and investment-grade collectibles such as antiques, jewelry, fine art, or rare coins. Liabilities are then deducted from the sum of the assets. Common liabilities include the mortgage on a home or other property; the balances due on car, educational, home improvement, or other personal loans; credit owed to stores or merchants; and amounts owed on credit cards. Net worth is often low for practitioners who have recently graduated from school and have accumulated significant debt. Any large, high-interest debt should be given priority to be paid off or reduced. To preserve essential assets, adequate life and disability insurance and a will should be obtained.

DEVELOPING A BUDGET

Personal financial planning demands that a budget be developed to limit spending and increase personal savings. Monthly cash flow needs to be monitored, and purchases and expenditures should be documented to see how money is spent. After a few months, an accurate picture will emerge of how much money is required for living expenses and where savings can be realized.

An income ledger should be maintained to keep track of salary, investment and rental income, interest earned, and any other money received. The sum of all income for the year thus can be determined. Fixed and discretionary expenses can be similarly monitored. Fixed expenses include home mortgage or rent payments, property taxes, utilities, homeowner's expenses, automobile and life insurance, groceries, clothing and dry-cleaning costs, public transportation, gas and maintenance costs for motor vehicles, phone bills, household help, tax liabilities, credit card and bank payments, and similar living expenses. Discretionary expenses include meals at restaurants, movies, video rentals, baby sitters, cellular telephones, rental cars, jewelry, vacations, sporting goods, tapes or compact discs, health club memberships, toys for children, and charitable contributions (viewed as wants rather than needs).

Monthly subtotals should be calculated for each expense category, and these figures should be used to determine an annual total. These expenses should be subtracted from the total income. If little remains, or if more has been spent than was taken in (with credit cards making up the difference), serious belt-tightening is in order. Even though fixed expenses are sometimes difficult to reduce without making sacrifices in living conditions, it is often easy to reduce expenses in the discretionary category. As a rule of thumb, discretionary expenditures should account for no more than 6% to 8% of net monthly income. Each month, projected expenses should be compared with actual expenses and progress should be carefully evaluated on a quarterly and annual basis.

Once a school or car loan has been paid, the cash formerly paid for these expenses should be directed toward savings and investments, or to retiring other debt, rather than toward increasing the standard of living. The same approach should be followed with any windfalls or other money received. An emergency fund should be maintained equal to at least 3 months of net income. These emergency funds should not be placed in a low-interest savings account but rather in liquid monetary instruments such as a money-market account that permits 24-hour access to funds without penalty. In addition, all individuals should ensure that they are obtaining the maximum allowable tax deductions on federal and state tax returns.

Insurance is a necessary expense to provide for families in the event of death or disability. Although life insurance usually is the first coverage purchased, statistically there is a greater probability of disabling injury or illness than of premature death. A disability policy usually provides 60% to 67% of tax free income if the policyholder can no longer work. (This income would be taxed if the taxpayer did not personally pay the insurance premiums.) Individual disability policies tend to be expensive—as a rule, a young person has to spend 1% to 2% of salary on such a policy, an older person 3% to 4%—but group policies through national or state professional associations can cost significantly less.

When basic expenditures can be paid, a portion of monthly savings may be placed into specific investments. Personal financial goals and the amount of risk that one is willing to assume will determine the type of investment strategy to be used. When the time frame for a financial objective has been determined, the annual rate of return required to meet that objective can be estimated. Typically, stocks and Treasury bonds are used to finance long-term goals, whereas CDs are better suited for immediate needs. The “Rule of 72” is a timetested way to determine the period needed to double an investment for a given annual rate of return. To calculate the time needed, the rate of return is divided into 72. For example, if \$1,000 is invested at 12% interest, it will take 6 years to double the investment to \$2,000 ($72 \div 12 = 6$).

For a beginning practitioner, retirement is a remote goal that is easily relegated to future consideration. In fact, planning for the future may be viewed as being in conflict with more immediate and tangible goals that are related to practice, family life, and financial demands. Such a view is shortsighted, however, and reflects a lack of understanding of the key role that estate planning—preparing for the future—plays in the life of a practitioner. One key aspect of such planning is to ensure that there is financial security, not only for retirement but also for the education of children in the event of disability and to protect a spouse left alone by unexpected death. Estate planning provides for both the expected and the unexpected events of life by securing adequate financial resources to manage them if they occur.

ESTATE PLANNING

Because there also is life after practice, practitioners face the perplexing problem of determining how to use savings to the maximum advantage during retirement. Like most difficult problems, there are no simple solutions, no easy answers to be followed dogmatically without exception throughout life. Furthermore, the problem is compounded by the lack of experience in financial planning, economics, and money management that is the lot of the average health professions graduate. Because of the complexity of estate planning, there is diversity of opinion, even among experts. Even so, there are certain fundamental concepts that generally are considered the bedrock of any estate plan. They in fact may be used to develop a philosophy of estate planning. Estate planning begins with the following four fundamental steps: adequate income; a home; a cash reserve sufficient to meet emergencies; and affordable and comprehensive insurance coverage. Once these four fundamental requirements have been met, investments may be funded. Each of these steps is briefly described, in the usual order of acquisition.

Income

Although optometry is one of the higher paying professions in the US, statistics show that individuals in high-income brackets overextend themselves with a regularity that is not remarkably dissimilar from that of individuals with more modest incomes. Therefore the relative affluence offered by a career in optometry does not insulate a practitioner from the financial tribulations of life. Nor does this affluence of itself ensure that a practitioner will be able to attain financial security. It probably does establish great expectations, but these expectations must be tempered by reality.

Studies conducted by the American Optometric Association (AOA) during the past 50 years have created a relatively clear picture of the income levels of optometrists (see Chapter 1). Of course, the great majority of optometrists are in private practice, which represents the most affluent career option in the profession. The net income earned by a private practitioner, however, is related to the number of years that the practitioner has been in practice. Therefore, to obtain an accurate picture of the income that a practitioner should expect to earn, the number of years in practice must be known. The AOA surveys are most useful in this regard.

An optometrist’s income is subject to diminution by inflation and taxes no matter the stage of practice, but the income of a beginning practitioner is further diminished by the economics of entry into private practice. The AOA economic surveys have shown that a 5- to 7-year period is required to establish a brand-new practice and to pay off educational debts. In addition, the usual period that is required to rise from associate to equal ownership in a practice generally is the same. Payment for the purchase of an existing practice usually involves a period of 5 to 10 years. Surveys also have revealed that, on the average, a private practitioner reaches the national net mean income for optometrists after 10 years.

A young practitioner must consider this 5- to 10-year building period when organizing an estate plan and must take care not to formulate unrealistic goals or expectations.

After this initial period is passed, however, net income continues to rise until after 20 years of practice. The relative affluence of this second phase in private practice is challenged by the financial responsibilities of raising a family. After 20 years, net earnings tend to drop slowly until retirement.

These statistics suggest that during the first years of practice a young practitioner should ignore any thoughts of estate planning and instead should concentrate on the demanding task of establishing a financial base. Such a suggestion would, however, be false. In fact, estate planning is vital during the initial period of building a practice, when discipline and a calculated approach toward achieving financial goals are essential. Budgeting of income will be necessary and will have much to do with the practitioner's ability to obtain adequate housing and savings—two prerequisites of estate planning.

Because budgeting is a necessity, both in professional and in private life, effort must be expended to try and stay within the budget's guidelines, which means that income and expenditures must be carefully monitored to ascertain whether excess earnings or a deficit is being generated. Good financial recordkeeping will permit adjustments to be made for the cost of living, inflation and changes in tax laws. It is essential to maintain adequate recordkeeping so that realistic budgeting can be achieved.

There are two simple but important rules of personal budgeting: limit the cost of renting or purchasing a home to no more than 28% of net income and put 10% of net income into a liquid fund that can be used for emergencies. This approach allows the majority of net income to be used for other needs, such as subsistence, servicing of automobiles and appliances, entertainment and vacations, and insurance premiums. Insurance is a particularly important budget item.

Insurance is a necessity that constitutes a fixed charge on income. It is cheapest when acquired at a young age and is an important means of protecting and generating an "estate" if untimely death intercedes. It can cover the loss of a home; personal and property damage involving automobiles; unexpected disability; and accidents or injuries occurring at work, in the home, or elsewhere. Comprehensive coverage should be planned for and acquired, and a reasonable budget should be maintained for insurance premium costs.

Although the statistics compiled by the AOA provide a composite representation of the mean income earned by optometrists, individual circumstances may vary well above or below these averages. No matter what the actual income is, however, it should be adequate to satisfy the following three criteria:

- The income is adequate for the practitioner's budgetary needs, which are based on financial records maintained by the practitioner, and satisfies the practitioner's obligation for a home, cash reserve, and insurance protection.
- The income will grow above the eroding effects of inflation and taxation.
- The income will be sufficient to allow for investing or participation in a tax-deferred retirement plan.

Budgeting of income for the rental or purchase of a home is one of the first concerns of a young practitioner.

Home

The choice of where to live usually is based on considerations of personal taste. The selection of a home because of its potential as an investment only peripherally enters into the process, despite the assurances of real estate agents that "buying is better than renting." For some individuals, buying is not better than renting because purchasing a home incurs an obligation that extends beyond the cost of a mortgage to include the expenses of furniture, appliances, repairs, remodeling, insurance, taxes, and similar items. There also is the investment of capital into a home—capital that could be used for other purposes such as the generation of income. Whether the purchase of a home is a good choice depends on the practitioner's circumstances and the economic burden that the payment of home-related expenses represents. If a practitioner makes the choice to purchase a home, however, the decision to do so will exert a significant effect on the practitioner's estate plan.

The purchase of a home provides some unique estate planning benefits, described in the following:

- The home, if well chosen, may appreciate during the period of ownership; this return on capital can be rather substantial, and since a home increases in value with inflation, the eroding effects of inflation are neutralized.
- Interest on a home mortgage is deductible on the owner's personal income tax return.
- The payment of a home mortgage because it also is a return of principal actually increases the value of the home to the owner; for each payment made, the debt is reduced, thereby increasing the owner's equity or value in the home.
- Taxes on a home are deductible.

Therefore a home does provide what may be considered an investment return, thereby providing a benefit to the estate plan. Disadvantages to home ownership must be considered and are described in the following:

- A home is not a liquid asset and cannot be disposed of quickly; months usually are required before a sale can be transacted.
- The costs required to maintain a home can exceed budgetary expectations and capabilities.
- A home must be held for a number of years before a sizeable financial return can be realized.
- If the selection of a home is not wisely made or if there are economically depressed times, it may actually decrease in value.

The cost of a home occupies a central position in the budget of a homeowner. The down payment required to secure a home mortgage generally is 5% to 10% or more of the home's cost. The size of monthly mortgage payments will be considered by the mortgage company and should be no more than 28% of the homeowner's net income. Payments may be the same from month to month, which is the traditional method of amortized mortgage payment, or they may vary in accordance with the lending rate offered by the mortgage company.

Variable rate mortgages have a ceiling beyond which they cannot increase and may require "balloon" payments after several years, which could have a large negative impact on budgetary planning.

One other aspect of home ownership that has significance for estate planning is the title. The title to real estate is of particular significance for married couples because the title to real estate can be divided or undivided among the owners. An undivided interest has several advantages because of the right of joint survivorship. A form of title known as Tenancy by the Entirety or Joint Tenancy with Right of Survivorship considers both spouses to be owners of the entire estate, with the right of joint survivorship. At the death of either spouse, the survivor is considered to be the owner of the home.

Another important consequence of an undivided title involves the rights of creditors. If the title is Tenancy by the Entirety or Joint Tenancy with Right of Survivorship, creditors cannot satisfy their claims out of the real estate unless both owners are debtors. Therefore, if an optometrist borrows from a bank to finance a practice and is not able to repay the debt, the creditor may proceed against any collateral that the optometrist has used to secure the loan. Unless the optometrist's spouse also has signed the loan agreement, the bank may not collect the amount due from the optometrist by forcing a sale of the house. The reason is that the spouse has an undivided interest in the realty, and because this interest was not used as collateral for the loan, it cannot be used to collect the debt of the optometrist. For practitioners who live in community- property states, there are special considerations that require consultation with a lawyer when property transactions are anticipated.

In addition, the sale of a primary residence can be used for retirement purposes because a large house may no longer be necessary when children are grown and if owned for many years, substantial equity may have accumulated. (Equity is represented by the sales value of the home less indebtedness such as a mortgage.) Current federal tax law permits a couple to sell a primary residence and exclude from taxation the gain, up to $500,000 ($250,000 each), and this income can be used as needed for retirement. For example, if a couple who purchased their home for $150,000 sell it 20 years later for $550,000; there is a $400,000 gain that is excluded from taxation and can be put to use as the couple wishes. (Since this benefit accrues every 2 years and providing the home being sold is considered a "primary" residence, this is a strategy for the do-it-yourselfer to acquire considerable wealth by acquiring a fixer-upper, renovating while using it as a primary residence, and selling 2 years later. The gains realized on sale would not be taxable, and the investor can repeat the process.)

Beside the acquisition of a home, estate planning also requires the accumulation of a cash reserve for emergencies.

Cash Reserve

A cash reserve provides needed security for a practitioner, particularly in the event of emergencies or other situations that call for the immediate use of cash. The cash reserve can be likened to a piggy bank, which is dutifully filled with an allowance—usually cited as 10% of net income—until 4 to 6 months of gross income has been accumulated. After this goal has been attained and insurance needs have been fulfilled, income can be used for investment.

There are several means of accumulating liquid assets that may serve as a cash reserve: savings accounts, interest- bearing checking accounts, CDs, whole life insurance policies, and credit cards.

Savings Accounts

Savings accounts are a traditional method of accumulating a cash reserve that allows savings to grow, although at a rather modest rate that may not be able to keep up with inflation. Even so, the return of interest is guaranteed, and savings accounts have the advantage of liquidity, which means that money can be withdrawn on demand. In addition, most savings accounts are insured up to a certain maximum, either by the Federal Deposit Insurance Corporation (FDIC) or the Federal Savings and Loan Insurance Corporation (FSLIC).

Interest-Bearing Checking Accounts

Beginning in the 1980s, interest-bearing checking accounts—known as negotiated order of withdrawal (NOW) accounts—have offered an alternative means of accumulating income in an on-demand cash reserve. The interest paid on NOW accounts is offset by service charges that can be avoided only if a minimum balance is maintained in the account each month. As a result, reserve funds can be deposited in checking accounts, as well as in savings accounts.

Certificates of Deposit

Although not truly a cash reserve, CDs are another means of setting aside cash in an interest-bearing account so that it is available in times of emergency. The interest paid on CDs is higher than that for savings accounts or interest-bearing checking accounts, but to receive the interest payment the CD must be held for a specified period, which may be as short as up to 6 months or as long as several years. The longer the period, generally the higher the interest paid. If the CD is cashed in before the period has expired, a penalty or reduction in interest may result, so CDs do not have the liquidity of savings accounts and NOW accounts.

Whole Life Insurance Policies

These policies acquire cash value in addition to providing insurance protection. Over a number of years the cash value can accumulate to a nice sum. This money can be withdrawn or borrowed, with or without an interest charge, depending on the type of policy and its provisions. The capacity to withdraw or borrow the cash value of a policy should be considered when purchasing whole life insurance as part of an estate plan.

Credit Cards

Although credit cards cannot properly constitute part of a cash reserve, they can provide a source of income—borrowed money—in an emergency. A line of credit is established, based on the income of the cardholder, and the cardholder may draw cash up to the credit ceiling as long as periodic payments are made to reduce the balance. Interest rates, though high, have not been subject to the same fluctuations as the prime interest rate in recent years, and they often do not compare too unfavorably with the interest rates charged by commercial banks. For a practitioner, credit cards are a necessity, providing identification, immediate credit, and a means of recording professional expenses for tax purposes. They can be abused, however, by individuals who do not have the discipline to restrict their use. Since credit cards may result in relatively high interest on balances not paid when billed, whenever possible, credit card bills should be paid in full when billed.

If a practitioner can realize an adequate income, acquire a satisfactory home, and make systematic contributions to a cash reserve, there is one remaining prerequisite—adequate insurance coverage. This last step is a sizable one, requiring an understanding of the basic types of insurance and their proper use in an estate plan.

INSURANCE COVERAGE

Although the fundamental purpose of insurance is to provide financial protection against disaster, insurance also can be used as an estate planning device. Some typical uses of life insurance, for example, include the following:

- For the payment of the costs of death, including debts, taxes, and the immediate expenses incurred by the estate
- To create a “nest egg” for the spouse or family of the deceased
- To provide cash for the payment of the mortgage balance on a home through the purchase of a mortgage rider
- To fund a cross-purchase agreement between partners or stockholders of a professional association or corporation
- For the protection of a practice against the death of a “key person”

The primary purpose of life insurance is to provide money in the event of death. In return for payment of premiums the insurance company agrees to pay the face amount of the policy to the beneficiary at the death of the insured. Although some types of life insurance, such as universal life policies, often are referred to as “investments,” life insurance primarily provides protection, with some utilization for estate planning.

There are four types of insurance that should be acquired by a practitioner: life, disability, professional liability, and personal (health, automobile, and home). Each type of insurance should be thoroughly understood before it is purchased.

Life Insurance

There are two basic types of life insurance: term and whole life. Term policies provide only death benefit insurance coverage for a specific period, usually 1 to 5 years. The cost of term insurance initially is cheaper than whole life coverage, but the cost increases with age. Term policies usually are not available after age 65. Whole life policies provide both insurance and investment return, thereby acquiring a “cash value” that can be borrowed against. The premium is based on the age at which the policy is taken out and does not change. Ordinary life policies require payment for the insured’s whole life; limited payment life policies limit premiums to a certain age, at which time the insurance coverage becomes permanent. Universal life is popular with professionals because it combines insurance with reasonable investment return and permits tax-free withdrawals to be made (up to the amount contributed). Variable life is a more investment-oriented policy that provides insurance coverage linked to a portfolio of securities. The higher the return on the investments, the greater the death benefit or value of the policy.

Because of its lower cost, term is often the first life insurance that is purchased. Later in life, term policyholders may convert to a whole life policy or purchase a whole life policy such as universal life.

Payment of the life insurance proceeds is for the face value of the policy, plus any cash value if a whole life policy was purchased. Payment may be in a lump sum, over a fixed period, in fixed installments, or for the life of the beneficiary (as with an annuity).

When attempting to determine the amount of life insurance to purchase, there are several factors to be considered, including the earning power of the practitioner, the earning capacity of a spouse, educational obligations to children or a spouse, and the amount of debt that has been acquired. In general, these considerations tend to indicate that life insurance protection should equal 5 to 7 years worth of gross income plus 5 to 7 years worth of debt (such as loans, mortgages).

Disability Insurance

Serious disability is a much more likely eventuality than premature death, yet disability insurance is far less likely to be planned for than life insurance. Policies are expensive and the benefits vary considerably from policy to policy.

Disability insurance pays the disabled policyholder a guaranteed monthly income (tax free if premiums are paid by the taxpayer), which is expressed as a percentage of earned income before disability. The percentage usually is limited to 60% to 67%; proof of income will be needed to establish policy coverage. Females pay higher premiums than males for coverage because they file more disability claims, but group disability insurance policies (offering “income replacement”) use “unisex” premiums that are cheaper and do not vary by gender. Office overhead insurance is used to cover the expenses of running a practice when a sole practitioner is disabled. The benefits paid are limited to actual overhead expenses (e.g., staff salaries, utilities, and office rent) and for a stated period (18 to 24 months).

Office overhead insurance does not pay for any expenditures that cannot be considered as overhead items such as laboratory bills and the costs of a substitute practitioner. Professional Liability Insurance Insurance coverage will be needed to protect practitioners against liability claims and provide for the costs of defense, including attorney’s fees and court costs, and for the cost of any judgment or settlement, up to the policy limit. A typical insurance policy will cover claims arising out of negligence, defamation, product liability, premises liability, or vicarious (employee) liability. Extra coverage usually is needed for professional employees (e.g., associate optometrists, opticians), to cover embezzlement, and for injuries to employees (in states where there may be no workers' compensation). The amount of insurance coverage should be at least $1 million per claimant; the purchase of an extra $1 or $2 million is worth the usually modest cost.

Personal Insurance

To provide coverage for personal needs, insurance should be purchased to protect health, home, and vehicles.

Health insurance will be needed until age 65, when eligibility for Medicare is attained. Major medical coverage is often a beginning point for young self-employed practitioners, but employed optometrists should be able to secure health insurance as a benefit of employment. Health insurance accounts (HSAs) are available to self-employed practitioners and are usually major medical plans that feature large deductibles, with tax deductible annual payments being paid into the account, invested like an IRA, and if unused, rolled over from year-toyear. Withdrawals used for medical purposes are not taxed.

Homeowner's insurance provides coverage for injuries occurring on the property; damage from fire, lightning and other perils; and loss of personal property. In the event of total loss, the personal effects are valued as a percentage of the coverage on the home (usually 50% to 60%). There is a limit to the value of individual items unless they are "scheduled." Items of special value (such as jewelry, works of art, or antiques) should be appraised and listed on a schedule for their fair market value. Of course, an extra premium is paid for these items.

Vehicles should be adequately insured for liability, collision, uninsured motorist, and comprehensive coverage. Coverage should be adequate to protect the policyholder (and family) in the event an accident occurs; generally, the policy limits are increased as the policyholder's economic status improves over the course of years.

Fire and Other Casualty Insurance

Most practitioners lease office space in a building. To provide protection in the event of fire, coverage of office contents should be obtained. Insurance should be purchased for the replacement value (rather than fair market value) of contents. Receipts, photographs, and other documentation of insured items and their value should be retained. If a practitioner owns a building, adequate coverage must be obtained, both for partial and for full loss. Because buildings can appreciate in value, insurance coverage for 80% of the building's fair market value will provide coverage in the event of a 100% loss. Because of appreciation, it also is necessary to adjust insurance limits periodically. Other casualty coverage for burglary, theft, office contents, professional equipment, general liability, and other perils is best purchased as multiperil insurance; comprehensive coverage under such a package often can be cheaper than the purchase of individual policies for these contingencies.

A list of insurance policies should be compiled and used to assess and monitor insurance coverage (Table 37-1). The cost of insurance coverage over the course of a professional career is several hundred thousand dollars, and premiums are paid with the hope that the contingencies they protect against will not occur. To ensure that insurance protection is adequate and appropriate, systematic reevaluation should be an integral part of insurance planning.

Once the four basic requirements of estate planning have been satisfied, income may be used for purposes of investment.

INVESTMENT OPTIONS

There are numerous investment choices for a practitioner to choose from, ranging from conservative to aggressive. Many different names are given to these choices, including principal guaranteed; principal secure; growth, balanced, and income funds; international and emerging market funds; real estate; annuities; and stocks, bonds, and mutual funds. The risk of investment also is subject to terminology such as "principal guaranteed," "principal secure," and "growth, balance and income funds."

Principal Guaranteed

The term *principal guaranteed* generally means that 100% of the money invested is guaranteed to be returned at a future date. The guarantee may not apply to any fees that are deducted from the initial investment. The term is often confused with investments for which the interest rate is guaranteed, but the principal is not. For this reason, it is essential to determine whether the guarantee refers to principal or interest or both (the safest investment).

Principal Secure

The term *principal secure* means that a large percentage of the investment is placed in cash, short-term money market securities, and government-backed securities. The investment return usually is equivalent to or slightly more than short-term interest rates. This investment choice is good for short-term returns or for security-conscious investors but may not include a guarantee of the principal or interest.

Growth, Balanced, and Income Funds

Growth, balanced, and income investment funds are best suited for investors who are seeking higher returns over a medium to long term, 5 to 7 years at a minimum. With these funds the investor must be prepared to accept moderate market fluctuations during the short term because it is possible to experience negative returns during a 12-month period. However, despite the volatility of the national economy the likelihood that there will be several consecutive years of negative returns is low.

TABLE 37-1

Summary of Insurance Types and Use

Type	Purpose	Cost
Business Use		
LIFE		
Decreasing term	Security for loan (assigned to creditor)	Moderate
Group term	Benefit for employees	Moderate
Cross or entity purchase	Payment at death of partner	Moderate to high
DISABILITY		
Group or private	Benefit for employees	Moderate to high
Office overhead	Payment for fixed operating expenses	Moderate
HEALTH		
Group or private	Benefit for employees	Moderate to high
LIABILITY		
Professional liability	Liability claims against doctor and employees	Modest
Casualty	Loss of office contents from fire or other peril	Moderate
Workers' compensation	Work-related injuries to employees	Modest
Embezzlement	Theft by employees	Modest
Premises	Injuries to persons in office or on premises	Moderate
Personal Use		
Type	Purpose	Cost
LIFE		
Term or whole life	Security for family	Moderate to high
DISABILITY		
Group or private	Security for family	Moderate to high
HEALTH		
Group or private	Medical and hospitalization costs	Moderate to high
HOME		
Decreasing term rider	Payment of home mortgage at death	Moderate
Premises	Injuries to persons on the premises	Moderate
Homeowners	Loss of home and personal effects from casualty	Moderate
VEHICLE		
Liability and collision	Damage to vehicles and injuries to persons	Moderate to high
Uninsured motorist	Personal injury from uninsured driver	Modest
Casualty	Vehicle loss or damage due to fire or theft	Moderate

Thus these funds are not a good choice for short-term investors who are risk averse to market fluctuations. The main difference between the investments chosen is that "growth" funds usually are more aggressive than "balanced" or "income" funds.

The main types of investments purchased today are stocks, bonds, and mutual funds.

Stocks, Bonds, and Mutual Funds

A stock is a share, or piece of ownership, of a company. When a publicly traded company wants to raise capital, it can either borrow money (from a bank on a short-term basis or from issuing bonds on a long-term basis) or issue stock. When a share of a corporation's common or preferred stock is sold, the buyer becomes one of the owners of that company. Publicly traded businesses sell stock to anyone who wants to buy it. Companies that are publicly traded are listed on stock exchanges, which are the places where stocks are bought and sold. To buy stock in a company, the services of a stockbroker are needed. The owners of stock in a company may receive dividends, which are profits that have been divided among the stockholders. Dividends may be paid in the form of money or as additional shares of stock.

Bonds are a more conservative type of investment than stocks. A bond is an interest-bearing security with a maturity date—or more simply, it is a loan. Buying a bond is like lending money to a company instead of buying ownership in the company. When a bond is purchased, the seller promises to pay the purchaser back, with interest, after a stated period.

There are several key elements that must be analyzed when evaluating the value and soundness of a bond, including the issuer (e.g., company, government), credit quality (e.g., Standard & Poor's rating), the interest rate (which varies in value for companies and governments), and the maturity date (which can vary from a few years to decades).

Local, state, and federal governments sell bonds, and government bonds generally are the safest choice. Corporate bonds often pay higher interest rates than do government bonds, but they can be riskier because the companies that issue them may not be able to make payment when the bond is due. Bonds usually pay higher interest rates than short-term investments, such as stocks, but patience is required because the maturity date typically is many years in the future.

Another choice is to put money into a mutual fund. These funds can be low or high risk. Because they involve a variety of investments, mutual funds do not depend on the success of any one company. A mutual fund that invests in bonds and blue-chip stocks (valuable stocks that are unlikely to lose their value) is typically a safe, stable type of investment. A mutual fund that invests in small companies or technology is much riskier. A mutual fund's price per share, also called the *net asset value,* is calculated at the end of each trading day by dividing the total market value of all the securities owned by the fund by the number of outstanding shares.

Mutual funds offer a purchaser the ability to change money from one fund to another within the same "family" at a nominal fee. Also, mutual funds are very liquid (easily convertible) because the investment can be increased or withdrawn at any time. The volatility of a mutual fund is indicated by its standard deviation: the higher the standard deviation, the greater the range of returns and the more volatile the fund. Unlike past performance figures for stocks, which are rarely an indicator of future results, standard deviation is a reliable indicator of future volatility. Some examples of fund volatility are provided in Table 37-2. For example, growth funds that had an annual return of 14% for 5 consecutive years had a standard deviation of 12%. This means that for the following 2 out of 3 years, the range of returns normally expected from a growth fund is 26% to 2% (14%, its average annual return, plus or minus 12%). Money market funds are the most stable category by a wide margin, whereas precious metals are clearly the most volatile. "No-load" funds do not require the payment of commissions, and knowing which companies a mutual fund invests in can help an investor decide whether to choose that fund.

TABLE 37-2

Standard Deviation Indicators of Fund Volatility

Fund Category	Standard Deviation (%)
Money market	1
Government bonds	7
Growth	12
Utility bonds	13
International	17
Precious metals	41

Annuities

An annuity is an investment purchased from an insurance company. Although annuities are offered only by the insurance industry, they have little in common with insurance coverage. Annuities are marketed and sold through brokerage firms, insurance agencies, banks, and savings and loan institutions. When an annuity is purchased, certain assurances are given by the insurance company. These promises depend on the company issuing the contract (the investment) and the type of annuity chosen. There are two main types of annuities: fixed-rate and variable. Fixed-rate annuities are similar to bank CDs. The investor (annuitant) makes a one-time investment (called a "single premium") and receives a guaranteed rate of return for the duration of the contract, which can be anywhere from 5 years to the life of the annuitant. Generally, the longer the period of time, the greater the rate of interest. Variable annuities are similar to mutual funds: the contract owner selects from one or more different investment portfolios, called *sub accounts*. Usually a wide range of choices are offered, from ultraconservative (e.g., a money market account) to quite aggressive (e.g., Pacific Basin stocks). As with a mutual fund, the allocation of the investment can be changed at any time and additional money can be added to the investment (called a *flexible premium*). A beneficiary also is necessary in the event the contract owner does not live to receive the proceeds of the annuity.

Real Estate and Real Estate Investment Trusts

Other than self-owned and managed investments in real estate, real estate investment trusts (REITs) are usually listed property partnerships and property trusts involved in residential, office, and industrial property markets. These real estate investment partnerships and trusts own the properties, lease them to a variety of tenants, and pass the income (less costs) back to the investor. These investments are long term, with a minimum 3- to 5-year time frame.

Basic Investment Terminology

There are several terms commonly used in describing the characteristics of investments. The *real rate of return* of an investment generally is described as being the gross yield (income plus growth), minus the rate of inflation. The real rate of return ignores taxes, whereas the "after-tax rate of return" ignores inflation.

Yield is the income paid out as interest or dividends, divided by the current price of the investment. This figure usually is expressed as a percentage. Thus a 1-year CD annually paying 5% in interest has a yield of 5%. If interest is paid frequently during the year, however, and added to the original investment so that interest is earned on interest, there is an *effective* or *compound* yield. Money markets often report an effective yield. Yield for stocks and bonds is more complicated because unlike a CD, stock prices change during the year. A stock selling at $100 and annually paying out $5 in dividends per share has a yield of 5%. If the stock price rises to $130, but the dividend remains $5, the yield drops to 3.84%. If a bond is held to maturity (when the bond principal is to be repaid to the bondholder), the yield is the same as its interest rate (assuming that interest payments are reinvested at the same rate of return). If the bond is sold before maturity for a smaller or larger price than was paid for it, the yield will change.

Capital gains (or losses) measure in percentage terms how much a capital asset gains (or loses) in value over time. It also is referred to as price appreciation (or depreciation) and sometimes confusingly as annual return. A stock bought at $50 that rises in value to $60 a year later has appreciated 20%. Capital gains (or losses) also apply to the tax consequences of the sale or other disposition of capital assets (like stock) that have been held for more than a year. Preferential tax treatment is given to the sale of these assets (see Chapter 39).

Total return generally is considered to be the best way to evaluate before-tax returns of similar or even dissimilar investments, since it compares apples with apples. However, inflation eats away at the purchasing power of total return. For example, if the total return for a year is 10% and inflation is 3%, then the real return actually received is 7%. Total return can be defined as yield plus or minus capital gains and losses. If a stock bought for $100 a share paid out $5 in dividends per share and gained $30 in value during the year, the total return is 35%. A $1,000 bond that pays out $80 in interest but loses $5 in value during the year has a total return of 7.5%. The calculation can be more complicated than this because dividends and other income may be reinvested during the year. (Mutual funds that report the total return of the fund include reinvested dividends and capital gains and losses the fund may have realized during the year.) To compute an accurate total return, all buy and sell prices, dividends, and any other income from the investment must be factored into calculations.

Average return is a measure of total return over time. If an investor purchases a $50 stock that has a total return of 10% the first year and 20% the second, its average annual rate of return is 15%. The *average annual compound return* is a measure of how investment return grows faster over time as a result of compounding. For example, a $50 stock earning a 20% return for 2 years running actually has a compounded return of 44%, not 40% ($10 in gain the first year, and $12 the second year, for $22 in total gain, divided by the original $50 investment). Thus its average annual compound return is 22%. On the other hand, the average annual compound return can be lower than the average return if over the designated period the early years experienced little gain or even a loss and the later years performed much better. An investment that loses 15% the first year, but gains 8% the second year and 20% the third year has an average annual return of 4.3% but a compound return of 3.4%. This situation is more likely to occur with investments that experience a wide range of returns.

Dollar cost averaging is a popular technique that involves investing the same amount of money each month into the purchase of stock or mutual fund shares. If the market is down, this technique permits the investor to purchase more shares for the same amount. For example, if one share of stock is purchased the first month for $100, another share for $100 the second month, and then both shares are sold in the third month for $150 each, the average cost of the shares was $100 and the profit was 2 × $50 = $100. But if one share of stock is purchased the first month for $100 and in the second month the share drops to $50, the investor can buy two shares for $100. If in the third month the stock goes up to $150, the investor has three shares at an average value of $66.67 per share, and if the stock is sold, the profit is 3 × ($150 − $66.67) = $250. Dollar cost averaging is an investment technique that cushions an investor's long-term strategy from dramatic fluctuations in the market and value of stock. Consistent investing over time protects the investor from having to constantly second guess market conditions with regard to ideally timing purchases.

ASSET ALLOCATION AND INVESTMENTS

Asset allocation is the process of allocating funds between stocks, bonds, and cash equivalents so that investment returns can be maximized for a given set of income sources, anticipated (and unanticipated) expenses, and retirement goals. Numerous books have been written on investments and asset allocation, but one does not need to be an investment expert to make sound decisions. When an investor is just starting out, it is necessary to understand the basics: the trade-off between risk and reward and the time frame involved (how long funds are to be invested). The usual investments used at this stage are stocks, bonds, and cash or cash equivalents (such as CDs).

As a general rule, stocks have historically outperformed bonds and cash equivalents over longer holding periods (10, 15, and 20 years). However, as with anything in life, additional risk accompanies efforts to obtain a higher reward. The stock market can be very volatile, especially if the time horizon involved is less than 7 or 8 years. After stocks, bonds generally outperform cash and cash equivalents over longer periods. However, the bond market also can be very volatile as interest rates rise and fall. Although an investor generally will receive the funds invested when the bond matures, this may not be true if the bond has to be sold before maturity. If it is expected that funds will be needed within 1 or 2 years, an investor may want to stick with cash and cash equivalents. Although some investment return may be lost, the investor will not have to worry about losing any of the funds that have been invested.

DEVELOPING AN INVESTMENT STRATEGY

Starting out, it is essential to establish some short- and longterm goals. Initially, an investment strategy will be relatively simple. For example, until a sufficient amount of money has been placed into an emergency fund to cover 3 to 6 months of expenses, most excess income will be placed in investments that are liquid and risk-free. Because these funds need to be available for unexpected expenses, cash and cash equivalents are preferred. Examples of cash and cash equivalents are savings accounts, money market accounts, CDs, and U.S. Treasury bills.

At the other end of the spectrum is the investment strategy that an investor should develop for the funds in a retirement account. At the start of a career, an investor does not intend to use any of these funds for 20 years or more. Because of this long time frame, the investor can accept some risk because (at least historically) this risk should provide a greater reward over the long term. Thus an investor's retirement accounts should be more heavily weighted toward stocks and bonds as opposed to cash and cash equivalents, at least until the time that it is contemplated these funds will be needed.

Once an emergency fund has been created and maximum amounts are being contributed to any employer-provided retirement accounts, additional excess income should be deposited into an investment account (an investment reservoir). This is the point at which an investor must consider asset allocation: what portion of excess income should be invested in cash and cash equivalents? What portion in stocks? What portion in bonds or mutual funds?

An investor's asset allocation will depend on that investor's particular facts and circumstances (e.g., age, goals). Typically, asset allocation should be more heavily weighted toward cash and cash equivalents and bonds in the beginning, especially if there are multiple short-term goals. As an investor accumulates more savings, a higher percentage can be invested in stocks.

If an investor establishes a long-term goal to retire at age 65 and to maintain the same standard of living in retirement as while working, the amount of income needed to satisfy this goal can be quantified. Certain expenses are bound to be reduced (e.g., work clothing, home mortgage) but others may be increased (e.g., travel, medical expenses). Living expenses will need to be adjusted for inflation at retirement (see Chapter 38) so that financial resources (retirement income, savings) will be sufficient during each of the investor's retirement years.

This process also allows the investor to determine whether there will be a "retirement gap." A retirement gap is the projected annual shortfall that an investor would have at retirement because projected savings and income are insufficient. To make this calculation, all retirement income sources must be converted to an annual income stream. For example, if the projected annual income stream in retirement was $85,000 and the annual retirement expenses were $88,000, there would be a retirement gap of $3,000. The investor would need to take one or more of the following actions:

- Re-evaluate retirement needs to consider which, if any, projected costs can be reduced.
- Modify current cash flow to build additional savings in retirement plans.
- Adjust the investment mix to try to increase the return of assets available for retirement.
- Delay the projected retirement date.

If a retirement gap is not projected, the investor will need to evaluate whether there is a sufficient cushion to add short- or long-term goals or to "leave well enough alone" and continue with the same assumptions until projections can be updated. Generally, the farther from retirement an investor is, the more the investor should consider any excess income projected in retirement as a cushion. Projections should be updated or at least verified periodically to make sure that there have been no material changes in retirement assumptions.

USE OF RETIREMENT ACCOUNTS

As discussed earlier in this chapter, it is essential that retirement planning begins well ahead of retirement, preferably soon after graduation from optometry school. There is a sizable financial benefit to be derived from beginning retirement planning early rather than late in a career (Table 37-3). Retirement planning is an essential part of an estate plan. It is almost certain that any Social Security benefits or employee pension plan payments will be inadequate to satisfy the retiree's needs, especially if the retiree is fortunate enough to be healthy and to live for many years.

There are three key elements involved in planning for retirement: forethought, patience, and specific goal setting. The investor must be able to project expenses and monetary needs 30 to 40 years into the future. As previously discussed, some expenses most likely will decrease such as housing and taxes. A retiree may wish to spend more time traveling, which would be an increased expense. Medical costs also could increase at retirement. In addition, retirement planning will have to take into account the effects of inflation, which will increase retirement costs and necessitate a higher retirement income. The investor must estimate specific retirement needs, set financial goals that will obtain the necessary financial resources, and have the patience to follow the plan over several decades. In constructing a retirement plan, an investor must consider the financial benefits to be derived from Social Security, work-related pension plans, insurance plans, and personal investments.

Planning for Inflation

If the goal of investing is to provide income at retirement, longterm estimates of increases in the cost of living and of inflation (which decreases the buying power of money) will be needed. A rule of thumb is that a retiree will require 80% to 100% of the retiree's current living expenses, adjusted for inflation, to enjoy an equivalent standard of living. For example, if $80,000 a year is thought to be needed at retirement in 20 years, and annual inflation is estimated at 3% a year over the 2 decades, the retirement fund will need to provide $145,000 per year for each year of retirement. For a discussion of how to make these calculations, see Chapter 38.

The usual means of estimating retirement costs is the cost of living index. It measures changes in the prices of goods and services over periods of years and thus is used to determine the amount of money needed to maintain a specific standard of living. Cost of living calculators are readily available on the Internet. Changes in the value of money over decades can be surprising: for example, $100 in 1968 is equivalent to $620 in 2008 (over 600% change in 40 years).

TABLE 37-3

Accumulating and Depleting a Retirement Fund

The annual investment needed to accumulate a $100,000 fund for retirement is determined by the amount contributed each year an d the percentage return on the investment. The following table illustrates the amount of money, interest rate, and length of time the money would have to be invested to accumulate a $100,000 fund.

Interest Rate	5 Year	10 Year	15 Year	20 Year	25 Year	30 Year
5%	$17,236	$7,572	$4,414	$2,880	$1,966	$1,433 **
6%	$16,736	$7,157	$4,053	$2,565	$1,720	$1,193
7%	$16,254	$6,764	$3,719	$2,280	$1,478	$989
8%	$15,783	$6,392	$3,410	$2,024	$1,267	$817
9%	$15,332	$6,039	$3,125	$1,793	$1,083	$673
10%	$14,890	$5,704	$2,861	$1,587	$924	$553

The length of time required to deplete a retirement fund depends on the amount withdrawn each year and the investment return being earned. The following table illustrates the number of years needed to deplete a $100,000 retirement fund based on a regular monthly withdrawal.

INTEREST RATE OF INVESTMENT

Monthly Withdrawal	5%	6%	7%	8%	9%	10%
$600	23	29	*	*	*	*
$700	18	20	25	*	*	*
$800	14	16	18	22	30	*
$900	12	13	14	16	19	26
$1,000	10	11	12	13	15	17
$1,200	8	9	9	10	10	11
$1,400	7	7	7	9	9	9
$1,600	6	6	6	7	7	7

* Withdrawals can be made indefinitely at this rate.
** As can be seen, for those who start early the total contribution will be significantly less than for those who start late. In this case the practitioner who contributes $1,433 per year for 30 years will accumulate $100,000 while contributing a total of $42,990. The practitioner who contributes $17,236 per year for 5 years will accumulate the same $100,000 but will contribute over twice as much ($86,180) in doing so.

The consumer price index is used to measure changes in consumer purchasing power (the relative value of money in relation to goods and services); for example, $100 worth of goods purchased in 2003 cost $112 in 2007 (a 12% increase in 4 years).

An important use of these indices is to determine “real” growth in income. Although AOA Economic Surveys have shown that the net income of optometrists increased from $74,846 in 1990 to $138,846 in 2000, an 185% increase, the cost of living increased by 32% over this period, and thus $98,611 had to be earned in 2000 to equal the buying power of $74,846 of a decade earlier. Therefore the “real” growth in income was about 125%, which represents income growth after increases in the cost of living have been taken into account.

Social Security

Social Security is a government-administered retirement, disability, and family and survivors benefits plan. Because of changes in the Social Security law made in 1983, the full retirement age for persons born in 1960 or later will increase to age 67 (although reduced benefits still will be available at age 62). There is skepticism about the long-term viability of Social Security unless the program undergoes substantial modification because in 30 years there will be twice as many older Americans drawing benefits. In fact, many financial planners do not consider Social Security in their sources of retirement income for young individuals who are just entering the workforce. A conservative approach to planning therefore would be to develop a retirement plan and projected budget without including Social Security. If Social Security remains economically viable over the years, there will be an opportunity to change goals, investment strategy, or retirement income projections. Social Security payments are never available in a lump sum, and as a general rule, the maximum annual amount payable is much smaller than the amount provided under an employer-provided pension plan.

Traditional Individual Retirement Accounts

Traditional individual retirement accounts (IRAs) can be used advantageously by young practitioners who understand the value of long-term investment for retirement. There are various types of IRAs, with slightly different rules and limits for contributions. The oldest is the traditional IRA, which can be used by both self-employed and employed individuals. The annual contribution that can be made to a traditional IRA is limited in amount, but higher contributions are allowed for persons over

TABLE 37-4

Annual Contribution Limits for Traditional and Roth IRAs, 2008-2009

Year	Age	Contribution Limit
2008	Under 50	$5,000
	50 and older	$6,000
2009	Under 50	$5,000
	50 and older	$6,000

From Taxpayer Relief Acts of 2002.

50 years of age (Table 37-4). Contributions can also be made for a spouse, even if non-working. The IRA contribution is tax deductible if the individual does not contribute to an employermaintained retirement plan (e.g., an individual practitioner who is self-employed). For individuals who also participate in an employer-maintained retirement plan, the deductibility of contributions is based on income, with different levels of income used for individuals who are single or who are married filing a joint tax return (Table 37-5). Contributions also can be made if a spouse contributes to an employer-maintained plan, but again certain income requirements must be met.

Over time, an IRA account increases in value because the annual contributions are invested and provide a return. This growth in the IRA is tax deferred, with taxes paid by the contributor only when withdrawals are made at retirement. There is no mandatory withdrawal age, but withdrawals without penalty cannot be made until age 59½ with some exceptions, including death, disability, eligible higher education expenses, unreimbursed medical expenses, and the purchase or construction of a first home. An individual must begin withdrawing funds from an IRA by age 70½ to avoid penalties.

Traditional IRAs demonstrate the value of establishing a retirement plan while young (Table 37-6). If a practitioner were to begin placing $5,000 a year into an IRA at age 25 and kept doing so for 35 years, assuming there was a 7% annual return, the fund would be worth $740,000 at age 60. If $5,000 was put into the IRA starting at age 35, at age 60 the account would be worth only $338,000. In fact, if an IRA was begun at age 25, contributions could have been stopped entirely at age 35, and there would be far more in the IRA ($401,000) than if contributions were started at age 35 and continued to age 60. Because of the benefit of compound interest, beginning the account early allows contributions to yield more money even if contributions are ended. For a discussion of how to make these calculations, see Chapter 38.

Roth Individual Retirement Accounts

Roth IRAs differ from traditional IRAs in that there is no age restriction for contributions, and contributions to a Roth IRA cannot be deducted from income. However, the Roth account grows tax free, and unlike a traditional IRA, withdrawals from a Roth IRA at retirement are not taxed. The annual contribution limits for a Roth IRA are the same as for a traditional IRA (Table 37-4).

TABLE 37-5

Traditional IRA Deduction Requirements, 2008-2009

Status	Adjusted Gross Income	Deduction
2008		
Single with no other retirement plan	No limit	Full
Married with no other retirement plan and spouse has no other retirement plan	No limit	Full
Single with another retirement plan	$0-$53,000	Full
	$53,001-$63,000	Partial
	Over $63,000	None
Married with another retirement plan	$0-$85,000	Full
	$85,001-$105,000	Partial
	Over $105,000	None
Married with no other retirement plan but spouse has a retirement plan	$0-$159,000	Full
	$159,001-$169,000	Partial
	Over $169,000	None
2009		
Single with no other retirement plan	No limit	Full
Married with no other retirement plan and spouse has no other retirement plan	No limit	Full
Single with another retirement plan	$0-$53,000	Full
	$53,001-$63,000	Partial
	Over $63,000	None
Married with another retirement plan	$0-$85,000	Full
	$85,001-$105,000	Partial
	Over $105,000	None
Married with no other retirement plan but spouse has a retirement plan	$0-$159,000	Full
	$159,001-$169,000	Partial
	Over $169,000	None

From Taxpayer Relief Acts of 2002. These limits are adjusted periodically.

TABLE 37-6

Contributions to an IRA: Projected Growth*

Period	At 5% Growth	At 10% Growth
After 5 years	$29,009	$33,578
After 10 years	$66,033	$87,655
After 15 years	$113,287	$174,748
After 20 years	$173,596	$315,012
After 25 years	$250,567	$540,908
After 30 years	$348,803	$904,717
After 35 years	$474,181	$1,490,634
After 40 years	$634,198	$2,434,259

*Contributions are $5,000 per year, made each year

There is an income ceiling to be eligible to contribute to a Roth IRA, which is based on marital status and income (Table 37-7). Contributions can be made for a nonworking spouse as long as the income requirements are met. Both self-employed and employed practitioners may easily reach this ceiling, which

TABLE 37-7

Roth IRA Income Limits, 2008–2009

Year	Status	Adjusted Gross Income	Contribution
2008	Single	$0-$101,000	Full
		$101,001-$116,000	Partial
		Over $116,000	None
	Married	$0-$159,000	Full
		$159,001-$169,000	Partial
		Over $169,000	None
2008	Single	$0-$101,000	Full
		$101,001-$116,000	Partial
		Over $116,000	None
	Married	$0-$159,000	Full
		$159,001-$169,000	Partial
		Over $169,000	None

From Taxpayer Relief Act of 2002.These limits are adjusted periodically.

is a limitation for this type of IRA. These income limits are periodically adjusted upwards to compensate for economic changes. The age requirements for withdrawals without penalty are the same as those for a traditional IRA, and early withdrawals without penalty are permitted for death, disability, or a qualified special purpose (e.g., to buy or build a first home). In 2010 traditional IRAs can be converted to Roth IRAs by individuals earning less than $100,000, and taxes incurred by the conversion can be spread over the 2011 and 2012 tax years.

Simplified Employee Pension IRA

A simplified employee pension (SEP) IRA is a tax-deferred retirement plan that can be established for self-employed individuals and for employees who are eligible to participate. The employer can contribute up to 20% of total income, subject to an earnings ceiling (Table 37-8). Because of the higher contribution limits, the amount that can be placed annually into an SEP IRA far exceeds that of a traditional or Roth IRA. For employees, contributions are made by the employer, up to 20% of the employee's total compensation, again subject to an earnings ceiling. With the exception of the higher contribution limits, SEP IRAs are subject to the same rules as for a regular IRA.

In a SEP IRA, as with other types of IRAs, both contributions and investment earnings grow tax-deferred until withdrawal (age limits are the same as those for traditional IRAs), at which time they are taxed as ordinary income. Early withdrawals without penalty are permitted for death, disability, and qualified special purpose.

Savings Incentive Match Plan for Employees IRA

The savings incentive match plan for employees (SIMPLE) IRA is a tax-deferred retirement plan provided by self-employed individuals or other small businesses (fewer than 100 employees) that do not maintain or contribute to any other retirement plan. Contributions are made not only by employees but also by the employer, who may choose to make matching contributions or nonelective contributions (Table 37-9). As with other types of IRAs, both contributions and investment earnings grow without taxation until they are withdrawn (which is ordinarily at retirement), at which time they are taxed as ordinary income. There are maximum annual employee contribution limits and

TABLE 37-9

Savings Incentive Match Plan for Employees (SIMPLE) IRA Annual Contributions, 2008-2009*

Employee Contributions		
Year	Age	Contribution Limit
2008	Under 50 50 and older	$10,500 $13,000
2009	Under 50	$11,500
	50 and older	$14,000
Employee Contributions		
Year	Age	Contribution Limit
2008 and 2009	None	Matching contributions may be made, from 1% to 3% of income, or nonelective contributions of 2% may be made.

From Taxpayer Relief Act of 2002.
*Contributions are made by both employee and employer; for example, assuming in 2008 an employee under 50 years of age earning $20,000 contributed $2,000 to the SIMPLE IRA, if the employer made a matching contribution of 3% the amount would be $600 ($20,000 × 3%), or if the employer chose to make a nonelective contribution the amount would be $400 ($20,000 × 2%), so that the total contributed to the employee's SIMPLE IRA for 2008 would be $2,600 or $2,400.

TABLE 37-8

Simplified Employee Pension (SEP) IRA Annual Contribution Limits, 2008-2009*

Year	Annual Percentage	Maximum Income	Maximum Contribution
2008	Up to 20% of income	$230,000	$46,000
2009	Up to 20% of income	$245,000	$49,000

From Tax Relief Act of 2000.
*Percentage contribution limits are set by the employer but must be the same for both employer and employees. For example, the annual contribution for a 10% SEP IRA for an employer earning $100,000 would be $10,000 and for an employee earning $20,000 would be $2,000.

percentage limits for the employer's contribution. The employer's contributions can be made even if the employee does not contribute to the plan. With the exception of the higher contribution limits, SIMPLE IRAs are subject to the same rules as those for a traditional IRA.

Keogh Plans

A Keogh plan is a flexible tax-deferred plan designed to help self-employed individuals and eligible employees establish a retirement savings program. There are two different types of Keogh plans, called *defined contribution and defined benefit plans* (Table 37-10). Defined contribution plans involve profit sharing and money purchase plans. Under Keogh regulations, the money purchase contributions are mandatory, and the same percentage contribution must be made for both employer and employees each year (whether there are profits or not). The amount to be contributed is a percentage of annual income, established by the employer. Profit sharing contributions are much more flexible, being set by the employer from year to year and based on profits. Thus annual contributions may fluctuate significantly. It also is permissible for contributions to be made to both money purchase and profit sharing plans in the same year. Defined benefit plans are set up to pay a fixed income during retirement, and contributions are based on an actuarial determination of the amounts that must be contributed annually to fund the plan. Defined benefit plans allow larger annual contributions than do defined contribution plans and are largely based on salary and years of service.

The most attractive feature of Keogh plans is the high maximum contribution they allow. Contributions and the investment earnings grow tax-deferred until withdrawal (assumed to be at retirement), at which time they are taxed as ordinary income. All contributions are made pretax, reducing taxable income or salary. Even if individuals participate in a Keogh plan, they still may invest in traditional IRAs.

TABLE 37-10

Limits for Defined Contribution and Defined Benefit Plans, 2008-2009

Year	Type of Plan	Maximum Annual Contribution Limits
2008	Defined contribution	20% of income up to a $230,000 ceiling, for a maximum of $46,000
	Defined benefit	The smaller of $185,000 or the average compensation for the 3 highest consecutive calendar years
2009	Defined contribution	20% of income up to a $245,000 ceiling, for a maximum of $49,000
	Defined benefit	The smaller of $195,000 or the average compensation for the 3 highest consecutive calendar years

From Taxpayer Relief Act of 2000.

Currently, Keogh plans are for self-employed individuals or partnerships, but eligible employees also must be included in the plan. Employees have a right to their contributions, but the right to the gain generated by these contributions is based on the plan's vesting period. Employers may require employees to work for a minimum number of years (up to 6) before becoming eligible to receive 100% of the gains from their contributions to the plan. There are two types of vesting schedules, as follows:

- Cliff (3 years, with 0% vesting for the first and second years and 100% in the third year)
- Graded (6 years, with 0% vesting in the first year and 20% per year for the next 5 years)

Employees who leave before being fully vested forfeit a percentage of the income their contributions have earned, and the forfeited amounts remain in the plan.

Pension Plans

A pension plan is a retirement plan, usually offered by large employers, that pays a set amount each year during retirement. As with Keogh plans, there are both defined contribution and defined benefit plans (Table 37-10). Defined benefit plans provide a specific retirement benefit to employees, calculated using a formula that typically includes final salary, years of service, and a fixed percentage rate. An actuary is needed to calculate the annual contributions that are needed to fund the benefit. Defined contribution plans establish the amount to be contributed to the pension plan as a percentage of income, rather than by the amount to be received at retirement (as in a defined benefit plan). Contributions to both types of plans are subject to certain limits, but the annual contributions to a defined benefit plan can be significantly more than those to a defined contribution plan.

Most pension plans are insured by the Pension Benefit Guaranty Corporation, a federal agency that protects employersponsored defined benefit plans. Eligibility for a pension plan requires fulfillment of the vesting period (either 3 or 6 years). However, not all workers or all jobs may be eligible to participate in the plan. Most pension plan benefits are paid out in the form of an annuity, which is a fixed monthly payment for a period of years or for the rest of the individual's life. Pension plan benefits can be distributed as a lump sum or paid over the life of the retiree or the joint lives of the retiree and the retiree's beneficiary. In most cases, a 10% early withdrawal penalty is applied for withdrawals before age 59½ unless the plan allows early withdrawal for hardship.

401(k) Plans

A 401(k) plan is a personal pension plan offered by an employer. The employee decides the amount to be deducted (called *salary reduction*), which reduces income before federal taxes are imposed; an employer may offer a *matching amount*. Both contributions are subject to certain income limits (Table 37-11). The employee chooses how to invest contributions, depending on the choices offered by the plan. At retirement, the employee

TABLE 37-11

401(k) Plan Contribution Limits, 2008-2009

Year	Age	Contribution Limit
2008	Under 50	$15,500
	50 and older	$20,500
2009	Under 50	$16,500
	50 and older	$22,000

From Taxpayer Relief Act of 2002.

receives the contributions made, plus the earnings of these contributions, minus income taxes. One benefit of a 401(k) over a traditional or Roth IRA is the employee's ability to contribute a much higher amount annually to the retirement account.

A "pension plan," when broadly defined, includes company 401(k) plans; however, a pension plan is different from a 401(k) plan in the following ways.

Benefits

If a defined benefit plan is used, pension plan benefits at retirement are known in advance. In a 401(k) plan, benefits depend on individual contribution levels and portfolio performance and thus are not determined until retirement.

Transferability

A company pension plan cannot be transferred if an employee's employment ends. A 401(k) account can be rolled over into another 401(k) plan or an IRA.

Investment Allocation Decisions

A plan administrator makes the decisions for the future "pensioners" in a company pension plan, whereas in a 401(k) plan, each participant manages his or her own individual portfolio.

Funding

Funding is provided by employers only in a pension plan and is optional for employers in a 401(k) plan.

To a limited extent, 401(k) plans fall under the provisions of the Employee Retirement Income Security Act (ERISA), and individuals responsible for the administration of 401(k) plans are considered "fiduciaries," which means they must comply with requirements described in ERISA related to the selection of investments, monitoring of performance, reasonableness of expenses, and various other matters.

Although contribution limits are less for a 401(k) plan compared with those of defined contribution or defined benefit pension plans, 401(k) plans offer the following.

Matching Funds

Many employers offer to match a percentage or set dollar amount of the money that is put into a 401(k).

Instant Savings

Employees are forced to save for retirement because 401(k) contributions are automatically deducted.

Built-In Dollar-Cost Averaging

Because contributions usually are a percentage of salary the same amount is deducted from every paycheck. This is in effect dollar-cost averaging and a staple of successful investing.

Tax-Deferred Contributions and Earnings

Before being taxed, money is contributed and allowed to grow along with earnings; at retirement taxes are paid on withdrawals when the individual usually is in a lower tax bracket.

Reduced Taxes

Federal, state, and local taxes are taken out of salary only after 401(k) contributions have been deducted, so taxes are lower.

Beginning in 2006, a Roth 401(k) has been allowed; both employer and employees may contribute. The Roth contributions must be held in a separate account from contributions to a regular 401(k) plan. The employee decides the percentage of contributions to go to either account, as follows:

- Any matching contributions from the employer must go to the regular 401(k) plan.
- Although Roth contributions are taxed, withdrawals are tax-free.

To withdraw the earnings tax-free, the Roth contribution must remain in the plan for at least 5 years and the participant must have attained age 59½ (death and disability also qualify). The usual Roth contribution limits do not apply. Instead, the 401(k) limits are used, which allows larger annual contributions to be made. Because the Roth income limits do not apply to 401(k) plans, higher-earning employees may contribute to the Roth 401(k), even though they would not be permitted to fund a Roth IRA. Withdrawals made before age 70½ years from the Roth 401(k) are tax-free.

There is greater complexity with 401(k) plans, and if matching contributions are made by the employer, greater expense with 401(k) plans. Thus they are not commonly used in optometry practices. However, in large practices, they may be included as one of the choices of a cafeteria plan, which is a benefit plan under which employees are provided with the opportunity of choosing between one or more employee benefits and cash, although 401(k) plans are currently the only retirement plans that may be included in employee cafeteria plans. Employees are given a specified number of "credits" that the employee can "spend" on different employee benefit plans or contribute to a flexible spending account (such as for life, disability, or health insurance).

403(b) Plans

The 403(b) plans were established by the federal government to encourage employees of certain tax-exempt organizations to establish retirement savings. These plans allow the employees of hospitals, educational institutions, and other nonprofit organizations to save and invest for retirement. Depending on the program, employees authorize pretax payroll deductions to be invested in a tax-sheltered annuity contract or in a custodial account made up of mutual funds offered by the organization. Both the contributions and the investment earnings grow tax-deferred until withdrawal (typically at retirement), at which time they are taxed as ordinary income.

Employees choose whether to participate. If the employer is involved in setting up the plan and selecting the financial services vendor or vendors, the plan must offer a number of different investment options, which means that employees can select their investments, based on individual time horizons, degree of risk aversion, and financial risk tolerance. The 403(b) investments also are portable. When an employee changes jobs, the 403(b) plan can be "rolled over" into an account in another organization's 403(b) plan or into an IRA. These plans are popular among the employees of certain 501(c) (3) nonprofit institutions, including hospitals and health care organizations, charitable foundations, religious organizations, scientific and research organizations, and educational institutions. The 403(b) plans are often called "401(k) plans for nonprofit institutions." Although this is generally true, some differences are apparent:

Employer involvement

In a 403(b) plan, employer involvement is not mandatory (beyond deduction of contributions). However, in a 401(k) plan, employer participation is mandatory for setting up, administering, and performing discrimination testing on the plan.

Subject to ERISA Regulations

Unlike a 401(k) plan, a 403(b) plan is only subject to ERISA regulations if there is employer involvement in setting up the program.

Vesting Schedule

In most cases, vesting is automatic for a 403(b) plan, whereas in most 401(k) plans, vesting occurs over a 3 to 5 year period.

Type of Account

A 403(b) plan is a custodial account, whereas a 401(k) plan is a trust. Withdrawals from 403(b) plans are often referred to as distributions. Assets in a 403(b) account can be withdrawn without penalty after age 59½ and withdrawals must begin by 70½ (unless the individual is still working). Distributions must be taken annually.

TRANSFER OF ESTATE

A good estate plan provides for the transfer of the planner's estate at death to the desired heirs with minimum taxation. Federal law imposes a unified transfer tax on lifetime gifts and property that passes at death. A carefully drawn will is essential not only to minimize taxes but also to ensure that the decedent's estate passes to the appropriate individuals at death.

Wills

A person who leaves a will is said to die testate; if there is no will, the person is intestate. In such a case, state law (referred to as statutes of "descent and distribution") will determine the manner in which the property is to be divided. Relatives of the decedent are specified in these statutes, beginning with spouse and children, and if there are none, to parents and siblings and others of more remote blood relation. Only if there are no heirs that can be found does the property escheat (revert) to the state.

The purpose of a will is to direct how the estate of the decedent is to be distributed. The person given the responsibility to see that the estate is properly divided is called the executor. The will should identify this person and describe the powers to be exercised by the executor in carrying out the provisions of the will. The will may need to be submitted to probate court, where a judge will ensure that the will is indeed the last testament of the deceased and oversee the administration of the estate by the executor.

Wills should provide for the distribution of the estate if both spouses die in a common disaster. Some states have adopted the Uniform Simultaneous Death Act (all joint property is halved). Wills also need to provide for minor children when both parents die at or about the same time. A trust often is used. The executor transfers the estate proceeds into the trust, which is then administered by the trustee in accordance with the trust instrument's provisions (e.g., for the support and education of the children). A guardian also can be named in the will to serve as the "parent" for the children; however, the probate court is not bound by the will's choice and may select another individual if the judge is convinced it is in the child's best interests to do so.

Complex wills should be drafted by a competent attorney. Holographic (handwritten) wills are enforceable, as long as they have been property executed (signed). The signing of the will must be witnessed; the number of required witnesses varies from state to state but usually is two or three persons. These individuals should be readily identifiable and relatively easy to contact for purposes of attesting to the will's authenticity.

The estate may be subject to both federal and state taxes, which are determined and paid during the probate process. There are some important ways in which the estate can be reduced for purposes of determining the tax, so that heirs can inherit more of the estate and the state and federal government less.

Retirement Goals

When considering these various means of funding a retirement plan, the investor should consider the following questions:

- Do I have clear goals in mind as to what I hope to achieve with my retirement fund?
- Will the income from the retirement fund be adequate for my needs?
- Is the retirement plan performing up to my expectations?
- Is the retirement plan set up for maximum tax benefits, both for myself and my heirs?
- Am I sufficiently familiar with the specifics of my plan?
- Have I discussed my retirement plan with my spouse?
- Am I reviewing and monitoring my retirement fund regularly?

Of course, planning is only half of the effort to build an estate; execution of the plan also is necessary. The actual execution of a plan usually requires the advice and assistance of a financial advisor. The wise investor will obtain a knowledgeable professional advisor to assist in the efforts to acquire an adequate retirement fund.

Estate and Gift Taxes

The federal estate tax is imposed on the gross estate of the decedent at death, which consists of the following:

- Property that the decedent owns at death
- Transfers of property that are effective at death (e.g., annuities)
- Transfers occurring within 3 years of death (except certain gifts)
- Payments from qualified retirement plans (e.g., IRAs)
- Life insurance proceeds paid because of death
- Property owned in joint tenancy (e.g., a house)

Generally, the value of the estate is the fair market value of the property that composes the estate at the date of death. The taxable estate is the gross estate, minus the following:

- Administration and funeral expenses
- Claims against the estate
- Casualty and theft losses (if any)
- Charitable deductions (if any)
- Marital deduction

The marital deduction is allowed for the value of property in the estate that is passed to a surviving spouse. Therefore it is limited only to the gifts and bequests made to the spouse; there is no monetary limit. The marital deduction is an important estate planning device, since it allows the property transferred to the surviving spouse to be excluded from estate taxes.

Life insurance is subject to special provisions. If the policy was given to a surviving spouse and the decedent retained no incidents of ownership after the gift, the life insurance proceeds will be excluded from the taxable estate. If the gift occurred within the 3 years before death, however, it will be included in the taxable estate. Thus "deathbed" gifts will be included in the estate for tax purposes.

For a home owned as Tenants by the Entirety or as Joint Tenants with Right of Survivorship, one-half of the fair market value of the home will be included in the taxable estate.

The estate tax also is affected by gifts made by the deceased. A gift tax is imposed on gifts that exceeded a stated amount per individual (the "annual exclusion"—the current amount is $12,000, but it is increased annually by cost-of-living adjustments). A gift to a spouse that qualifies for the marital deduction is excluded from this tax. For gifts in excess of the annual exclusion, a return must be filed, Form 709, United States Short Form Gift Tax Return, by April 15 of the year after the gifts were made. The gift tax is computed on the return. (The donor pays the tax not the recipient of the gift.) However, there is a credit that may be applied to the gift tax, which provides a dollar-for-dollar reduction in the tax (Table 37-12). Use of the credit enables a donor to avoid paying the gift tax but reduces the credit available to offset estate taxes at death. An example of how this credit may be applied to eliminate the tax on gifts is provided in Table 37-13.

The credit also is applied to estate taxes and may be used to provide a dollar-for-dollar reduction in the estate tax. Because of this credit, estate tax is applied only to estates that have a certain net worth. An example of how the credit may be applied to reduce or eliminate estate taxes is provided in Table 37-14. Any part of the credit that has been used for gifts, however, must be deducted and cannot be used for reduction of estate taxes. An example of how previously used credit for gift tax reduces the credit available for estate taxes is provided in Table 37-15.

The federal gift and estate law will change dramatically in 2010 unless it is revised by the US Congress. The estate tax is repealed for 2010, and the gift tax is decreased to the lowest level in years (with the highest bracket being 35%). Therefore, for individuals dying in 2010, there will be no federal tax levied on their estates. But in 2011 there will be an equally drastic change, as the estate and gift taxes revert back to levels that were in effect prior to 2001, when the current law was enacted.

TABLE 37-13

Use of the Unified Credit to Offset Gift Taxes

Gifts made during year	$570,000
Less annual exclusion	−$11,000
Total taxable gifts	$559,000
Gift tax owed	$178,000
Less Unified Credit	−$178,000
Net gift tax	**$0**

TABLE 37-14

Use of the Unified Credit to Offset Estate Taxes

Taxable estate	$1,000,000
Federal estate tax owed	$345,800
Less unified credit	−$345,800
Net gift tax	**$0**

TABLE 37-12

The Unified Gift and Estate Tax Credit

	For Gift Tax Purposes		For Estate Tax Purposes	
Year	Unified Credit	Exclusion Amount	Unified Credit	Exclusion Amount
2008	$345,800	$1,000,000	$780,800	$2,000,000
2009	$345,800	$1,000,000	$1,455,800	$3,500,000

Data from Internal Revenue Service Publication 950: Introduction to gift and estate taxes.

TABLE 37-15

Deduction from Unified Credit of Previous Credit Claimed for Gifts

Allowable Unified Credit (as of 2008)	$345,800
Less previous credit claimed for gifts	−$45,800
Unified Credit remaining for estate taxes	$300,000

Other credits that may be applied to the federal estate tax include the following:

- Credit for state death taxes
- Credit for gift taxes (for gifts included in the taxable estate)
- Credit for foreign death taxes

Expert advice is needed to plan for estate transfers at death. A knowledgeable attorney or financial advisor should be consulted.

CONCLUSION

Financial goals often are not achieved without the guidance of a well-conceived financial plan and consistent, regular contributions to savings and investments. Effort must be expended to determine and monitor changes in net worth, redefine financial goals as necessary, and develop a savings and investment program. The power of compound interest, combined with an early start to contributions, will make a significant difference in the ultimate results to be enjoyed at retirement. It is essential to begin planning early in a professional career; to secure competent technical advisors for guidance; and to develop the estate in a stepwise, orderly fashion. Consistent effort, applied over the course of a professional career, will result in the development of a sizable estate for retirement, protect against the unpredictable likelihood of disability, and ensure that the estate is passed as desired to loved ones at death.

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