Financial security – the cornerstone to successful financial planning

Mary Goodman, MGM Financial Service, part of the Business Medical network, provides this useful guide to check that your loved ones are financially protected

When we look at our finances and engage in a financial planning process, we often focus on areas providing what we consider to be 'financial success', ie. providing for retirement, savings and investment etc. However, the foundation of successful financial planning and what provides peace of mind is in fact the areas that provide financial security, ie. protecting what's most important.

What's most important to you?

There's no right or wrong answer to this question and we'll all have different priorities. At MGM, we like to break this down into the following:

- What you earn;
- What you own;
- What you owe; and
- Those you love.

Those you love – while most important – purposely come last on the list, as, if you protect what you earn, own and owe, you will be protecting those you love.

Let's take a look at each one and see what you should be considering.

What you earn

Your income is your biggest asset as it pays for everything, so it is important to protect it. Over 30 years, a person earning €46,402 per year (average industrial wage CSO in 2017) will earn just shy of €2m in that period with wage increases of 2.5% built in.

As a predominantly self-employed profession, now entitled to the State Disability Benefit, most GPs have some level of income protection to supplement their income if they were unable to work due to illness or injury – and rightly so. In fact, we find many GPs are over-insured in this area. I have outlined below some points to consider when determining the level of income protection you need, as you may not need as much cover as you think.

Your income protection needs – points to consider

1. **Your entitlements through the GMS**

   This is an area which is often overlooked when calculating what level of income protection you need. For those with a panel size in excess of 100, capitation payments will continue to be paid and all subsidies and allowances will continue also. In addition, for those with a panel size in excess of 700, a contribution towards locum cover will be paid at a rate of €1,380.65 pw for the first 13 weeks and €690.33 pw for the following 13 weeks. Although it is clear that these rates would not cover the cost of a locum, together with capitation, subsidy and allowance payments, they should be included in the calculations when determining your level of income protection and appropriate deferred period.

2. **Partnership agreement**

   One of the issues which should be addressed in any

PARTNERSHIP PROTECTION AWARENESS WEEK

April 1-5, 2019

At MGM Financial Services we are very conscious of the fact that many GP partnerships around the country are very exposed due to no or inadequate levels of protection in place. As part of Partnership Protection Awareness Week, we have some food for thought.

1. **What is Partnership Protection?**
   An arrangement via a life insurance policy which provides fundsto enable surviving partner(s) to purchase a deceased partners share of the partnership.

2. **Why Partnership Protection?**
   - Protect financial security of partnership.
   - Protect your family – ensure the capital is in place for repayment.
   - Ensure certainty of ownership by remaining partners.

3. The statistics

No. of partners in partnership	Probability of at least one partner dying before age 65
2	42%
3	56%
4	66%
5	75%
6	80%
7	85%
8	89%

** All partners assumed to be aged 40 currently*

Protect your family, your partners and your practice

successful partnership agreement, is 'leave entitlements' which incorporates sick leave. In many cases, it is written into the partnership agreement that a partner on sick leave will continue to be paid their normal profit share for a specified number of months. It is imperative that any sick leave benefits through your practice are included in determining your income protection need as most policies will not pay out if you are still being paid.

3. Savings

For many GPs, cashflow has been an issue in recent years with all of the Financial Emergency Measures in the Public Interest (FEMPI) cuts. So, for many, savings have taken a back seat. We do, however, recommend that you work towards having an 'emergency fund' of six months' income. For income-protection calculation purposes, you should ascertain how long your existing savings would last if your income dropped or stopped.

4. Short-term or long-term requirements.

There are some income protection policies out there that are really a short-term solution and pay out from day or month one. In reality, many GPs with GMS entitlements and some level of savings would not need immediate cover. It is also important to note that a very small percentage of GPs actually go on short-term sick leave. It is often the case that when a GP is on sick leave, it is unfortunately due to something serious and long-term. In most cases, we recommend a policy which will provide you with long term protection.

5. When do you need cover to start?

As explained above, this is what you call the deferred period. The time between when you go sick and when your claim is paid. The longer you can afford to wait, the more reasonable the cost. For the same reasons as in number 4, many GPs may not need immediate cover from day or month one, and more importantly, may not be entitled to claim. We recommend a full overview of personal circumstances, GMS benefits and existing cover before determining the most appropriate deferred period and level of cover.

6. Health insurance

Additional medical costs are a factor when considering what level of income protection you need. Reviewing your health insurance to see what is covered is important when looking at income protection. You may find that your health insurance covers quite a lot already. It is important to remember that health insurance and income protection are very different and most GPs need both. It is, however, a good idea to take a look at both to ensure you have the right blend.

What you own

What you own tends to be more straight forward as many of these policies you are obliged to have, ie. home/car insurance. Both products are designed to protect what you own. The key question here is are you protecting all the things you own that are important to you and if so are they covered at the right level?

What you owe

Interestingly this is the protection that we're all the most familiar with as we all know that if you have a mortgage you must have mortgage protection. The main driver for this is generally the banks insistence. Your mortgage is typically your biggest debt but often not your only debt. Many GPs have investment properties, whether they be their practice or other. Banks rarely insist on you having mortgage protection in place on an investment property but it is essential you do. The last thing you want is to depart this world and leave your loved ones with your debts. Any other loans such as credit cards, car loans etc should also be protected.

Those you love

Putting protection in place in relation to what you earn, what you own and what you owe is all for the benefit of those you love. Protecting them is generally what's most important to everyone. It should be the foundation stone of every financial plan. Without this crucial building block all the other factors would come crashing down. When you think of protection don't think of the myriad of products that are out there. Instead focus on various 'what if' scenarios to identify any gaps in your protection needs. As GPs, you witness every day the concept of 'it will never happen to me' becoming reality for patients. So, let this be our prescription for your financial security.

Contact MGM Financial Services at info@mgmfs.ie or (01) 293 9333. MGM Financial Services is regulated by The Central Bank of Ireland.