

Your Money

How to avoid hidden financial mistakes

As a physician, I encountered patients with varying degrees of bodily injuries. As a financial planner, I encounter clients with prior financial injuries. Both can lead to long-term disability. But while you may not be able to anticipate every slip and fall, you can often avoid financial trauma. Here are five things to watch out for.

1. Brokerage commissions. A new client recently used a bank-based brokerage to sell more than \$1.5 million in stock. The money had been in the investment account for only a couple of months. The broker's commission was almost \$15,000—for transactions that took about 10 minutes to complete and which would've cost perhaps \$200 in fees at any large, no-load brokerage company.

The cure: Know how much you're paying in fees for your investments. Ask about upfront fees, back-end loads, annual expenses, and surrender fees.

2. Insurance as an investment vehicle. Another client of mine had purchased a large whole-life policy as an "investment" for himself and his wife. They paid yearly premiums of more than \$60,000 for two years, yet the policy's cash value after that time was only \$12,000. Granted, the policy had a death benefit of \$1 million, but my clients could've gotten that same level of coverage for roughly a \$1,000 a year with a term-life policy.

It's unwise to view insurance primarily as an investment since, most often, you could do better investing through some other venue.

The cure: Get more than one quote on any type of life insurance you're considering.

3. Insurer-sponsored retirement plans.

Some of these plans are expensive and limited to a narrow selection of mutual funds. The funds may have annual fees of 3 to 5 percent. In addition, the mutual funds may be bundled within an annuity, a type of insurance "wrapper."

The cure: Ask your employer to explain the various fees and charges in your retirement plan. If you or your spouse has a plan sponsored by an insurance company, look into less-expensive, noninsurance-based "unbundled" plans that have transparent costs.

4. Brokerage-based retirement plans.

Many doctors with small practices work with a brokerage house to design and manage a retirement plan for themselves and their employees. The brokerages usually offer a "prototype" plan for these practices—in essence, a one-size-fits-all plan. Many of these plans, though, have high fees and costs.

The cure: Talk to at least one or more independent financial advisers and pension plan design companies. A customized plan may result in lower costs and better benefits.

5. In-house referrals. Bank- and brokerage-based financial advisers often refer their clients to attorneys and insurance agents who are either employed by, or who have a fee-sharing arrangement with, the parent company. Most often, a customer who comes in for mortgage financing or an insurance policy is quickly recommended to these people, without getting an independent evaluation.

The cure: Take time and don't make an instant decision if you're given an in-house referral. Explore options and pricing scenarios. ■



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» Get more than one quote on any type of life insurance you're considering.

» Watch for high expenses on retirement plans created by insurers or brokerages.

» Look for a second opinion before taking in-house financial referrals.

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