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Finance

## Be careful about trading tomorrow's financial security for today's expensive lifestyle

**Y**ou're a successful physician. You work hard. Your income is well above the average Canadian salary (which today comes in at just under \$50,000, according to Statistics Canada). So why do many successful medical professionals still feel:

- challenged to cover monthly expenses;
- uncertain about long-term financial security;
- unable to attain the lifestyle of their colleagues; and
- happy about their income-earning ability, but not wealthy?

Over the past 20 years I've noticed some themes that help answer this question. Consider if you fall into any (or all) of these categories:

### 1 You underestimate the impact of taxes.

You know you pay a lot of tax. But like many high-earning professionals, you don't organize your spending in line with your after-tax income.

### 2 You assume you don't need to deal with the constraints of a budget.

You want to go out for dinner? Out you go. You want a vacation for the family? You book. A high level of financial freedom is expected at your level of income.

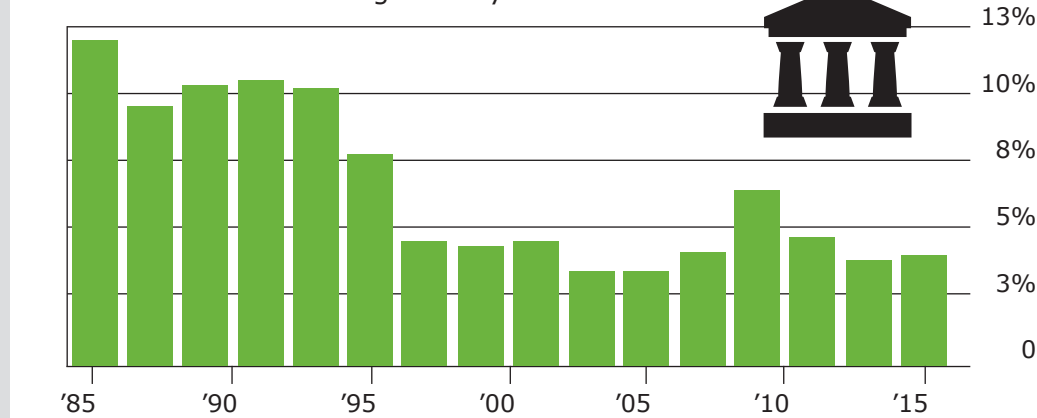
### 3 Your kids go to private school.

The value in the private school environment comes at significant cost, and for an extended number of years. At an estimated annual, after-tax cost of \$15,000, you will have spent \$234,266 including a lost investment return of 3%. Depending on your province of residence, that is about \$460,000 of income. Multiply that by the number of children you plan to educate. And don't forget those extra costs that come with the private school environment!



## HOUSEHOLD SAVINGS RATE

Canadian household savings rates have been declining for 30 years.



Source: Statistics Canada

### 4 You have access to easy abundant credit.

Banks love to lend to physicians! Your income is high and steady so you're the ultimate borrower. Credit is made available early and often. And historically low interest rates allow significant levels of debt from a cash-flow standpoint.

### 5 Your lifestyle expands with income.

High-income earners of all stripes often expand their lifestyle spending as their income increases (and sometimes beyond). It seems

fair to reward themselves and their families for the sacrifices they make in the work they do. They see colleagues with second properties, high-end vehicles, club memberships, full-time nannies, and the list goes on. Why shouldn't you have all this too?

Many physicians tell me they will work well past 65, so they can catch up on wealth building later in life. Maybe.

But as a lifetime financial planner I'm more than aware of the time value of savings. Give your savings a chance to grow over time, and the difference in wealth growth is nothing

short of astounding. Ask your financial planner to show you a few different scenarios with your income, comparing starting to save earlier with starting to save later. You may be astonished at the difference.

As recently as the 1980s—it's hard to believe—Canadians saved an astonishing 20% of disposable income. Now it's true, interest rates were high in the early 80s. But savings rates never really dipped below 10% until about the mid 1990s.

By that time, consumerism, credit cards, a global economy and the Internet had all begun to exert their sway. We live in

a much more tempting world than we used to, in many interacting ways.

### If you do plan to defer saving until your sixties:

1. Crunch the numbers to make sure that by delaying retirement you can still be financially positioned to retire in the manner you desire at your chosen time.

2. Remember that retirement timing is not always in your hands. Health and family considerations often present constraints.

3. Consider the fact that your drive and energy level at age 60-plus may be lower than it is now.

As a high income earner, you're fortunate. Your financial future is in your hands. Nonetheless, choosing between lifestyle today versus financial security tomorrow is never a simple decision.

Make sure you're going into it with your eyes open!

*Rona Birenbaum is a certified financial planner in Toronto and founder of Caring for Clients (caringforclients.com). The information contained herein was obtained from sources believed to be reliable. Its accuracy or completeness is not guaranteed and Queensbury Strategies Inc. assumes no responsibility or liability.*