Draw Up a Plan to Meet Your Financial Goals

On one level, "financial planning" is something that all of us do every day when we make spending decisions. Should I buy this item at the store or one that's less expensive? Or buy neither and save my money for that plasma TV I've been eyeing? Should I pay bills today or wait until next week? Should I have lunch with that specialist I met last week, hoping to get some referrals and thus boost my income?

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What are some typical financial-planning goals? Kathy Stepp, principal of Stepp & Rothwell, a financial-planning and investment advisory firm in Overland Park, Kan., lists these common financial-planning goals for people who are still in their working years:

1. Keep all credit cards current. If you carry a balance, you'll have to pay steep interest rates with no tax deductions. Pay them in full every month and you get an interest-free loan.

2. Save for retirement. "The first place to do so," says Ms. Stepp, "is within company-sponsored retirement plans. There can be an immediate tax benefit and/or a deferred tax benefit, and there may be 'free' money through an employer's matching contributions."

3. Save for your children's college education. Ms. Stepp suggests using "529" plans to save enough to fund a reasonable estimate of in-state college costs. These are tax-favored education savings plans operated by a state or educational institution designed to help families set aside funds for future college costs. If you would like to provide for a private school or post-graduate studies, you can save additional sums in another account.

4. Make sure an estate plan is in order. Current estate tax limits make planning easier than ever, according to Ms. Stepp, so there should be no excuse to put it off.

5. Make sure the family has sufficient resources in the event of a parent's death. If there are not sufficient assets already, consider buying life insurance. "A term policy is probably the best choice for someone in the accumulating years," says Ms. Stepp, "because the growth of personal net worth will offset the need for insurance over time."

6. Keep current income taxes down whenever possible. Such tax reduction must stay within the law, of course. She suggests that you take advantage of the timing of tax-deductible expenses by modeling the current tax year and the next few tax years. Other strategies include making contributions to tax-advantaged retirement plans (which dovetails with goal #2, above), making charitable gifts in appreciated stock or buying energy-efficient home items or vehicles.

In order to meet such goals, physicians should realize that high earnings alone won't be sufficient. "Doctors definitely have some unique challenges and issues," says Diahann Lassus, president of Lassus Wherley & Associates, a wealth-management firm in New Providence, N.J. "Depending on their area of specialty, they spend many years in school and internships, prior to beginning to earn substantial amounts. Many physicians also carry very large debt into their first job, debt that takes many years to pay back."

Karin Maloney Stifler, who heads True Wealth Advisors in Hudson, Ohio, has these particular thoughts for physicians, especially those at an early stage in their careers:

- **Be realistic about future earnings and resist the temptation to let personal lifestyle and expenses get ahead of income.** Adverse trends such as the high cost of practicing medicine

(malpractice insurance, for example) and reduced revenues (from lower reimbursements) are likely to continue to restrain income for doctors.

"I've read that the average increases in physicians' compensation have been less than the rate of inflation over the past 10 years," says Ms. Stifler. "This means that physicians' income has less purchasing power, year after year, which makes it harder to support today's lifestyle and still meet tomorrow's goals for retirement, children's education, etc. Lower real income is a greater dilemma if you have a high level of debt, such as many doctors have as a result of the high cost of medical school."

- **Get expert help if you don't have the time to manage finances yourself.** Medicine is a demanding career that leaves little time for family, leisure and personal financial management. "Outsourcing taxes and financial planning may allow you to maximize every opportunity to build wealth while having a successful medical practice and home life," says Ms. Stifler.

Four Broad Financial-Planning Goals

Financial-planning goals tend to fall into these broad categories:

- **Retirement.** For many people, the most important goal is to be able to stop working at some point in their lives, yet still enjoy a comfortable lifestyle. Unless you have inherited wealth, that means saving sufficient amounts and investing wisely during your working years.
- **Education.** Most physicians want their children to attend good colleges and probably graduate school (perhaps medical school) as well. The costs of such an education can easily run well into six figures per child; a physician with three young children may wind up spending seven figures on their education.
- **Estate creation.** It is natural to want to leave a substantial legacy to support a surviving spouse. In addition, you'll probably want to leave something to your children, your grandchildren and maybe your favorite charities as well.
- **Lifetime enjoyment.** Although most people have the above goals, few want to put every available penny into a retirement fund, a college fund and an investment portfolio to bequeath to survivors. As a physician, you expect to put in long hours; you probably also expect to eat well, travel and enjoy some of life's luxuries along the way.

Indeed, many physicians, then, will be well served by getting outside assistance. "It helps to consult a financial adviser who can help you set priorities and point you in the right direction," Ms. Lassus says.

Although that may be good advice, a comprehensive plan from a top financial planner could cost $5,000 or more. "Instead of doing a comprehensive plan, which is extremely time-consuming," says Ms. Lassus, "some planners will consult with you on an hourly basis, at fees ranging from $100 to $300 per hour. Spending a few hours with an adviser may not be extremely expensive, especially if you wind up with some good ideas for handling your money."

What's more, says Ms. Lassus, a young doctor with a growing family may not need to meet with a veteran financial planner whose typical client has a seven- or eight-figure net worth. "Instead of someone with 30 years of experience, ask if the firm has planners with perhaps seven or eight years in the field. Such a planner probably won't charge as much as the principals in a financial planning practice yet will still have enough expertise to meet your needs."

Working With Advisers

Meeting your financial goals of building investment funds, cutting your taxes and planning your estate will take more than the services of a good financial planner. You'll likely need an experienced accountant and an attorney on your team as well. With all of their experience you may be in good hands, but you may be subject to confusing advice.

It's your money all these advisers are working with, so you should make an effort to know what they're doing. Of course, you needn't become an expert on the tax code, modern portfolio theory and contract law. By exercising some basic caution, though, you can keep your advisers in line and watch out for your own interests. Here's a practical strategy for working with an advisory team:

■ **Choose a quarterback.** "If you have three or four advisers, they all can't be in charge," says Femi Shote, managing director of Asset Harvest Group, a financial planning and investment advisory firm in McLean, Va. "It's up to you to pick one who'll

coordinate the efforts of the others."

You may select the adviser who has been helping you for the longest time or the one who makes you feel most comfortable. In any case, your quarterback should be looking at the efforts of the other advisers, to make sure they're not working at cross purposes. For example, if your financial planner is working out a diversified portfolio of stocks, bonds and mutual funds, your accountant shouldn't be proceeding on the assumption that you're planning to commit most of your available cash to buying a vacation home.

■ **Read those statements you get in the mail.** The adviser who is acting as quarterback should be preparing financial statements on a regular basis. Ideally, you should be able to see a personal balance sheet each month.

A balance sheet is simply a report of your assets and liabilities. On the liability side of the balance sheet, if you see credit card debt or personal loans, you may be overspending. Alterna-

How to Choose a Financial Planner

Choosing someone to help manage your financial affairs is a serious decision. You need to be sure that the financial planner you select has the right expertise to meet your needs and is competent and trustworthy.

The Financial Planning Association (FPA) recommends that you request written disclosure documents such as Form ADV from prospective planners. Form ADV, used by financial advisers to register with the Securities and Exchange Commission or state regulators, contains information about assets under management, fee arrangements, business activities and adviser backgrounds. It also includes a balance sheet for the firm.

FPA advises that you conduct in-person interviews with at least three financial planners before choosing. Some of the basic information you should gather:

- The planners' educational background, financial designations and professional affiliations.
- Licenses to sell certain financial products, such as life insurance or securities.
- Services the planner provides.
- The planner's basic approach to financial planning and how he or

tively, an adviser may have recommended that you borrow money for a business venture; if so, find out if it's really necessary for you to take on such debt.

The asset side of your balance sheet should include everything you own: cash in the bank, stocks, bonds, funds, real estate, life insurance and so on. If you don't understand anything on this list, ask about it. Some very sophisticated investors have gotten into trouble using complicated strategies with options and commodities contracts.

You also should look for a good mix of assets. If 90 percent of your assets are held in technology stocks or sector funds, that's a red flag. The same is true if most of your net worth is tied up in one real estate property. If that property (or that sector of the stock market) heads south, your financial future may be in jeopardy.

Make the most of today's technology, too. Many advisers will have the ability to provide secure access to account information

she might address your particular needs.

- Areas of specialization, types of clients the planner serves and any minimum net worth or income requirements.
- How the planner is paid for services (whether fee-only, commission-only or some other arrangement) and the typical charges.

"A face-to-face interview also should give you a personal sense about the planner," says FPA. "Does the person seem forthright in their answers? Do you have a sense of trust and rapport? Is the person focused on your needs, not selling products?"

The FPA says that physicians should ask prospective planners to disclose any business relationships that may present conflicts of interest. For example, if the planner is paid commissions to sell certain financial products, this should be revealed. In addition, ask about disciplinary actions that may have been taken against the planner by government regulatory agencies or professional associations.

"At the heart of any working relationship with a financial planner is trust," FPA says. "Trust is built on two factors: the planner acting in your best interests and full disclosure of the planner's background, business practices and other issues."

For more information on FPA, log on to the association's Website at *www.fpanet.org.*

via the Internet, so you can keep track of your assets easily.

■ **See that your advisers are working together.** Even though one adviser acts as a quarterback, the others should play a role, too. Show your statements to each of your other advisers to get their reaction.

If one adviser suggests a strategy to you, especially one that seems unusual, ask your other advisers for their opinion. Make sure any differences are resolved to your satisfaction.

"At the end of the day," says Mr. Shote, "no one will be as concerned with your financial success as you are. You can show that concern by keeping a close eye on what your advisers are doing with your money."

Setting a Realistic Budget

You don't have to work with an adviser or multiple advisers; you can handle your own financial planning if you have the time and the inclination. In any case, though, certain basics will apply. Start with your income; decide how much of it will be saved and invested to provide for your future. What's left, after savings and taxes, can be spent. But you'll need a budget to provide some discipline over how you spend your money. Without a budget, it can be easy to outspend your income, no matter how large that may be. Some physicians overspend, go into debt and end their medical careers in poor financial condition.

To wind up a winner, you'll need a budget that you can live with. If you keep finding "unusual" circumstances that cause you to spend more than is in the budget, you'll never manage your money as planned.

How can you create a realistic budget? Freddie Mac, the stockholder-owned company established by Congress to provide home financing options, recommends that you track your expenses for a couple of months to see exactly how you are spending your money. Be sure to include all sources of income and all expenses, even items that do not recur on a regular basis, such as dentist bills, eyeglasses, furniture and vacations. Freddie Mac has a useful monthly budget worksheet on its Website (*www.freddiemac.com/corporate/buyown/english/pdf/monthly_budget_worksheet.pdf*) that includes many expenses that you might overlook.

Following are some guidelines on setting a budget that works

for your family:

■ **Set your priorities.** Working with or without your financial adviser(s), determine what money must be spent. That would include housing costs, clothing, groceries, insurance coverage, auto-related expenses and so on.

Put Planning on Autopilot

David John Marotta, president of Marotta Asset Management in Charlottesville, Va., suggests these simple, specific tactics for saving and investing:

■ **Set goals.** Your savings goals should be a specific annual percentage of your adjusted gross income (AGI). He recommends saving at least 10 percent of your AGI in tax-free retirement accounts and another 5 percent toward retirement in taxable investments. If you are behind on your savings (over 40 with less than three times your AGI in investments) you may want to save more in order to catch up.

■ **Translate your percentage goals into specific numbers.** Put your specific annual savings goals down on paper, one for your retirement accounts and a second for retirement savings that will go into a taxable account.

■ **Prioritize the retirement vehicles that you can use.** Mr. Marotta recommends investing just enough to get the entire match that your employer's 401(k) plan offers first, then funding your Roth IRA accounts, if you qualify. After these two, make certain you have enough non-retirement savings.

Since Jan. 1, 2006, you also have the option of investing in a Roth 401(k) through your employer-sponsored retirement plan. While upper-income physicians may not be able to contribute to Roth IRAs, there are no income restrictions on Roth 401(k) contributions.

■ **Automate your investing.** The amount earmarked for taxable savings should be committed in monthly installments. Because finding the money to fund your Roth IRA at the end of the year is sometimes difficult, Mr. Marotta recommends saving toward funding your Roth IRA each month by adding that amount to your taxable savings.

Most brokers offer an automatic money link between your investment account and your checking account, permitting a monthly automatic transfer between the two accounts.

■ **Tell someone.** Goals that are shared are 10 times more likely to be acted upon, according to Mr. Marotta.

See if there are any ways to trim these costs. You may be spending more than you need to on life insurance, for example, if you have a costly cash-value policy rather than inexpensive term coverage. Take a look at your transportation costs, too, to see if you might cut back to less-expensive models of your cars or other vehicles.

■ **Establish a cash reserve.** You should have some money in a bank account or money market fund that you can tap immediately, in case of an emergency or some other unforeseen circumstance. "Many people say you should have six months' worth of spending in reserve," says Joe Outlaw, president of PenTrust Financial Services in San Diego, Calif., "but that's not always the case. For example, a young couple might have a smaller cash reserve if they both have parents who live nearby, as long as those parents can be counted on for financial support."

■ **Focus on the future.** As mentioned, your budget should include retirement plan contributions you'll make during your working years. If you have children, you will probably want to build a college fund. Although circumstances vary, you may do well to put between 10 percent and 20 percent (or even more) of your current income aside for future needs.

■ **Decide about everything else.** Once you have your bases covered for necessities and your financial future, you can decide how to spend the rest. Travel, restaurant meals, club dues? Gifts to family and charitable donations? The list of possibilities is endless, but you must decide where you want your money to go.

If you're married, it's possible that you and your spouse will differ on what should be considered the best way to spend money. There's no right way to approach household budgeting and spending, but you should have an open discussion in order to come to an agreement that both of you can stick to.

At different stages of your life, different financial-planning issues may gain importance. Physicians with teenaged children, for example, may focus more on education planning while those in their late 50s may be most interested in retirement.

"For young people, the most important area of financial planning is cash flow," says Charles Taylor of Taylor & Padgett Financial Group in Prescott, Ariz. "We've been tracking spending for one client who told me that she spent more in June

because she had birthday gifts to buy and weddings to attend. July had more birthdays and weddings, then she was taking a trip in August. Eventually, she realized that each month is 'unusual' and she was always spending over her budget."

How does Mr. Taylor deal with clients like this one? "We talk about spending," he says. "Rather than classify spending as good or bad, we use good, better and best. Everyone has their own values, and we try to make sure that money is being spent on 'best' items."

At different stages of your life, different financial-planning issues may gain importance. Physicians with teenaged children may focus more on education planning, while those in their late 50s may be most interested in retirement. "For young people, the most important area of financial planning is cash flow," says Charles Taylor, a planner in Prescott, Ariz.

Such choices may not be readily apparent. "I remember working with a young client who had just gotten her first job, as a dental hygienist," says Mr. Taylor. "We were drawing up spending plans to match the cash flow she'd have, and she had '$60 for nails' in there. We kept going over her budget, cutting things out, and I was surprised to see that item remained on her list. Finally, she explained that she wanted to have nice-looking nails for her job and for her social life. It was important enough to her that she was willing to give up other aspects of her lifestyle."

Depending on your personal circumstances, the list of "vital" expenses might go from toys, clothing and fast food to cell phones and iPods. "Don't forget to budget for vacations," says Ms. Lassus. "Everyone needs some time off."

Although such lifestyle choices certainly will affect your budgeting and spending decisions, there is an important distinction to keep in mind before you start writing checks or using your credit cards:

■ **Depreciating assets.** "Some things that you buy are certain to lose value immediately after the sale," says Mr. Shote. Cars are a good example. The minute you drive a new Lexus off the lot, its trade-in or resale value will be a great deal lower than the price you paid.

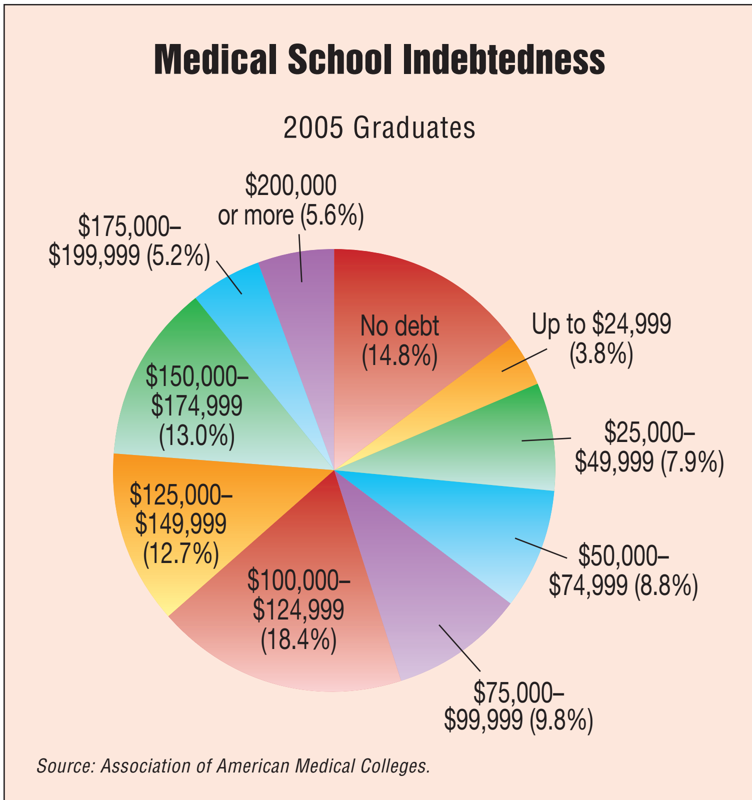
The same goes for clothing and high-end electronic items.

Jewelry, too, no matter what the salesperson may tell you about gold or diamonds being a great inflation hedge.

This isn't to say that you shouldn't buy nice cars, stylish clothing, a home entertainment system, jewelry and so on. However, you shouldn't go overboard. The amount you spend on depreciating assets should be a fraction (preferably, a small fraction) of your disposable income.

■ **Appreciating assets.** On the other hands, some purchases are likely to gain value over time. Real estate is a prime example, especially if you take out a mortgage to buy a home.

Say you buy a house for $600,000, after making sure the price is in line with other home sales in the same neighborhood. You might make a $120,000 (20 percent) down payment and take out



Source: Association of American Medical Colleges.

a $480,000 mortgage.

In the future, your house could be worth $700,000, $800,000 or even more, considering the way home prices have gone up in the past. If your home grows in value to $700,000, you'll have $220,000 worth of equity in the house, in excess of your $480,000 mortgage.

If so, you'd have an 83.3-percent return on your down payment: a $120,000 investment would be worth $220,000. You can't be sure this will happen, but it's very possible, judging by the history of housing prices.

Similarly, if you put some money into well-researched stocks or stock funds, you can expect to see long-term growth. Farsighted financial planning will lead you to put more of your money into such appreciating assets than you spend on items that are guaranteed to lose value.

Dealing With Debt

For many physicians (especially younger ones who are burdened with large education loans), debt is a major financial-planning issue. Once you're earning a sizable income as a doctor, it is possible—and vital—to get your debts under control.

Following are some tips for managing debt:

Working Your Way Out of Debt

MasterCard offers these tips for reining in credit-card debt before it gets out of control:

- **Confront your debt.** Some people are afraid of even looking at their credit-card bills, to say nothing of paying them. The first step is opening your mail and calculating the total amount that you owe.
- **Set a deadline for paying off your credit-card debts.** Once you have a deadline, you can calculate how much to pay each month. In almost all cases, this will be more than the minimum required payment.
- **Keep your spending in line with this monthly payment.** Set the amount of spending that is necessary for groceries, transportation, medical costs and utilities. Keep a certain amount aside for unexpected costs like car repairs, but don't let spending on nonessentials and big-ticket items interfere with the monthly payment you make, which will help you work your way out of credit-card debt.

■ **Beware of high interest rates.** As of this writing, interest rates are low, by historic standards. Home mortgage rates are under 6 percent, new-car loans are a bit over 6 percent.

However, some types of loan rates are much higher. Credit card rates and personal loan rates now average around 13 percent. Paying 13 percent in a 6-percent world is bad enough; if you're paying 18 percent or 20 percent or more on a loan or line of credit, you're paying too much.

■ **Know the tax angles.** Generally, interest that you pay on a home mortgage is tax deductible. You also can take out a home-equity loan, which is backed by the equity in your house. On home equity loans up to $100,000, you can deduct the interest from your taxable income.

In addition, in many cases you can deduct the interest that you pay on a loan that is business- or investment-related. However, other types of loans (auto loans, credit cards, personal loans) don't provide tax deductions.

For example, if you get a personal loan for $50,000, and you're charged 20 percent on that loan, you're paying $10,000 per year, with no tax break.

■ **Pay down your high-rate loans.** It probably makes sense for you to take out a low-rate, tax-deductible mortgage loan to buy a home. Auto loans, too, may be practical. However, borrowing at high rates for other purposes will throw your financial future for a loss. You should pay down those loans as soon as you can, to stop the interest from running.

Suppose you have a $50,000, 20-percent loan outstanding. By paying off that loan, you avoid paying $10,000 a year in interest. In other words, you'd receive a 20-percent return on your $50,000, risk free. There are few better things you can do with your money.

Easy credit is a way of life in America today. Every day, it seems, your mail brings a new credit-card offer. "You've Been Pre-Approved," a letter will tell you, for $10,000 or $25,000 or $50,000 worth of credit. These cards make it easy for you to buy things—and very easy to go into debt.

Suppose, for example, you charge $5,000 worth of electronic equipment, clothing, restaurant meals, etc., on a card. When you get the bill, your "minimum payment" may be only $150. So

you'd be tempted to write a check for $150 and leave a balance of $4,850. Then you may charge more the next month and send your balance even higher.

Today the interest you'll pay on a credit-card balance might be 13 percent a year, 15 percent, or even more. If your balance for the year averages $20,000, paying 13 percent would cost you $2,600 in interest; this interest is not tax deductible and won't reduce your $20,000 balance. Even physicians with substantial incomes can fall deeply into debt through extensive use of credit cards.

> **If you are carrying a balance** on your credit-card accounts, pay it down immediately, before doing anything else with your money. Paying off a balance on a card with an interest rate of 13 percent is the same as earning 13 percent, after tax, risk free. There's no investment you can make that is sure to pay off as well as paying off your credit-card debt.

How can you avoid such problems? One option is to use a debit card,which is linked to your bank account, rather than a credit card. A debit card is as easy to use as a credit card. Any purchases come right out of your bank account so you won't have a balance and you won't owe any interest. But be careful not to spend more than you have; some debit cards include an overdraft feature that will allow you to make purchases even if your account balance is too low. The balance is then treated like an overdraft, which will be subject to bank fees and interest.

If you prefer to use a credit card, make sure to pay the complete balance on time. Again, you'll avoid paying any interest charges. Some issuers will permit you to have credit-card bills paid automatically from a bank account, as soon as they come in, so you won't have to worry about interest or late fees.

If you are already carrying a balance on your credit-card accounts, you should pay it down immediately, before doing anything else with your money. After you wipe out your credit-card balances, pay the full amount each month. Don't go into debt to buy clothing, restaurant meals, groceries, etc.

Read your credit-card statements. Find out the rate you're paying on each card. "If people have high-rate cards, I'd advise them to get that debt paid off first." says Karen Spero of Spero-Smith

Investment Advisers in Vail, Colo. Pay the minimum on your low-rate cards while you pay off the high-rate cards as quickly as possible. Then pay off the lower-rate cards.

As mentioned, paying off a balance on a card with an interest rate of 13 percent is the same as earning 13 percent, after tax, risk free. There's no investment you can make that is sure to pay off as well as paying off your credit-card debt.

If, despite your efforts to slash your outstanding balance, you still find yourself drowning in credit-card debt, you need to cut your spending. Shred your credit cards or put them in a drawer so you won't have them handy for impulse buying. Pay cash for your purchases. If you don't like to carry large amounts of cash,

A Comparison of Consumers With High vs. Low Credit Scores

According to a recent study by Experian Consumer Direct, consumers with credit scores less than 660 had a significantly higher incidence of late payments as well as higher debt usage than those consumers with scores of 720 or greater. While those consumers in the higher scoring group had higher debt balances, they generally utilized less of the credit available to them.

Category	Group One: Credit Score Less than 660	Group Two: Credit Score of 720 or Greater
Average Monthly Payment	$290	$724
Average Debt (revolving and installment accounts only)	$6,661	$15,015
Average Debt Usage (% of available credit used)	27.7%	17.8%
Average Number of Late Payments (over the past 6 months)	2.32	0.0021
Average Number of Inquiries(over the past 6 months)	3.07	1.44

Source: Experian Consumer Direct, www.nationalscoreindex.com.

use a debit card when you buy something.

Know Your Credit Score

Whenever you apply for a credit card, an auto loan or a home mortgage, you're likely to be scored. The same is true when you buy auto or homeowner's insurance.

That is, your "credit score" probably will be checked. Credit scoring not only helps determine whether you'll be accepted or rejected but also the interest rate (or insurance premium) you'll pay. The higher your score, the lower your costs.

On the positive side, credit scoring goes by the numbers. Credit scores don't judge by the way you look. They don't take their personal problems out on you, as may be the case with a bank lending officer. If you have a good score, you'll get what you came for.

On the other hand, credit scoring can work against you if the numbers don't add up in your favor. If you have missed payments or defaulted on loans, that information will be included in your score, dragging it down. The lower your score, the poorer your chances of getting credit, even if your banker is a friend.

The bottom line is that you should know about credit scoring and take steps to improve your grade. Generally, credit scores are based on three factors:

- **Severity.** The more serious the problem, the more it will knock down your score. A 30-day late payment is not as damaging as a 90-day late payment.
- **Frequency.** Similarly, one late payment won't hurt your score as much as several late payments.
- **Recency.** If you failed to make some payments on time four or five years ago, your score might not be lowered if you've been paying your bills promptly since then.

Credit availability also may affect your score. If you have no credit cards, for example, you can't show that you've been approved for credit and have made payments regularly. On the other hand, having many cards—and a huge overall credit line—can be a risk indicator. Having two cards probably is best for this purpose. Once you have seven cards or more, your credit score may take a hit, even if you keep current on all of them.

Be especially careful about credit cards from one store or one

chain. Every time you apply for such a card, your credit score drops. Virtually anyone can get one of those cards, so an application is viewed as a sign of distress rather than creditworthiness. In addition, these new accounts lower the age of your credit history, which also lowers your score. Keep this in mind when the sales clerk tries to persuade you to take out a store credit card in order to save 10 percent or 15 percent on your purchase.

Along the same lines, if you decide you have too many cards, and you want to close some, choose the newer ones to eliminate. Older cards have a longer credit history, and a long history helps your credit score.

As mentioned, credit scores only reflect whether you've paid your bills. They don't take into account your income, the neighborhood in which you live or how many years you've been working.

Therefore, credit scores may be helpful to physicians who are just starting to practice, providing you handle your credit wisely. However, if you misused the first credit card you had, when you were still in school or just out of school, the negative reports will hurt your credit score for years.

No matter what your past history, the best thing you can do is to keep paying your bills on time. Most importantly, pay your current mortgage and insurance premiums right away. Even if you have had past problems, a year's worth of regular payments can make a substantial difference in your score.

If you have good credit habits, make sure that your credit score reflects this. It is a good idea to check your scores from time to time.

"A 2004 report by the U.S. Public Interest Research Group found one in four credit reports have serious errors that could significantly lower your chances of being approved for a loan or a credit card," says Mr. Marotta. "Even if you think you have good credit, check the facts on your credit report anyway. I recently checked my credit history and discovered that one of the digits of my Social Security number had been incorrectly entered on an account. It was listed as an alias in the report."

An amendment to the Fair Credit Reporting Act and the Fair and Accurate Transfers Act (FACT) now requires each of the consumer reporting agencies to provide you with a free copy of your credit report once a year. To get a complete look at

your credit report card, you'll need to request a copy from each of the credit reporting bureaus—Equifax, TransUnion and Experian.

To request your free credit reports, visit *www.annualcreditreport.com* to view a copy of your credit report from one or all of the bureaus. Or call toll-free 877-FACT-ACT to request your free annual disclosure from the agencies. Your report will be mailed to you within 15 days.

"To get the maximum benefit," says Mr. Marotta, "stagger when you check your free reports throughout the year. Your spouse is entitled to free credit reports as well. By alternating with your spouse, you can check your shared credit every two months."

Credit scoring can work against you if the numbers don't add up in your favor. If you have missed credit-card payments or defaulted on loans, that information will be included in your score, dragging it down. The lower your score, the poorer your chances of getting credit, even if your banker is a friend.

Home Sweet Home

In contrast to credit-card interest, the interest that you pay on your home mortgage probably will be tax deductible. What's more, mortgage interest rates remain attractively low by historic standards. "Generally, it makes sense to own rather than rent, as long as you can afford the cost of buying and maintaining a house," says Ms. Lassus.

However, rising prices in many areas of the country have made finding an affordable home increasingly difficult. Therefore, you may need to pay extra attention to housing when you develop a financial plan.

"A lot of people can't afford housing these days," says Louis Barajas, a financial planner in Santa Fe Springs, Calif. "They have to become more flexible."

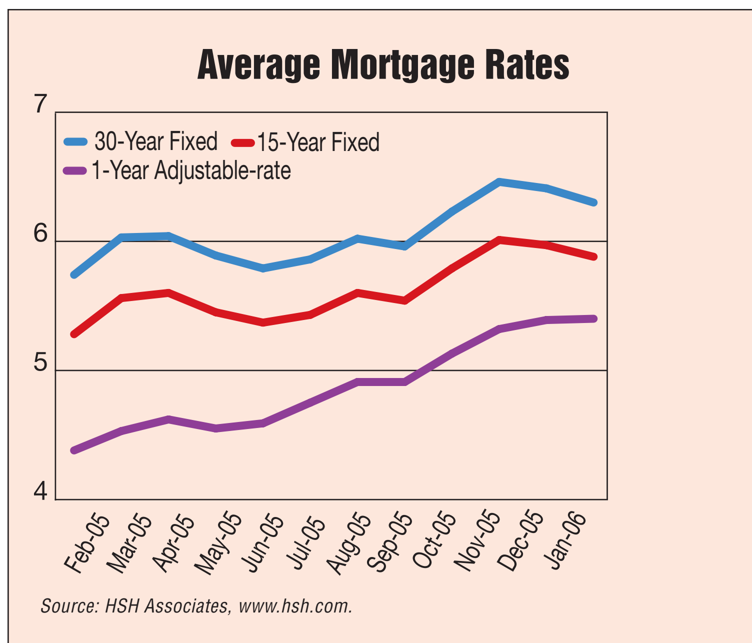
Especially in those areas in which real estate appreciation has been extraordinary, home ownership may not be the automatic first choice. "These days, everybody wants to own a home," says Ms. Spero. "It might be heresy, but some people may be better off renting." Generally, rents have not accelerated as rapidly as home prices.

"I have been telling clients that they should think about their future plans," says Peg Downey, a partner at Money Plans in Silver Spring, Md. "If they think they might be moving out of the area in the next couple of years, they may be better off renting. If they already own a home, they might consider selling it and renting a place to live."

If you prefer owning to renting, though, Mr. Barajas suggests moving to a more distant, less-expensive neighborhood or even relocating to a lower-cost region. "One of my clients," he says, "an X-ray technician, got a new job and bought a house near Fresno. For $400,000, he was able to buy the kind of house that would cost around $1.5 million in this area of southern California."

If you're renting now, waiting to buy a house may prove to be worthwhile. First, calculate how much your monthly payment would be, to buy a house you'd like to own. It is likely that the monthly payment will be more than what you're paying as a renter.

"You can take the difference and save it each month, letting it



Source: HSH Associates, www.hsh.com.

accumulate," says Ms. Downey. By the time you've saved enough for a down payment, you'll be used to setting aside a certain amount for housing each month.

Those would-be home buyers who have difficulty putting together a down payment should be wary of current trends in the mortgage market, says Ms. Stifler. "I've been working with an engaged couple whose prime goal is to own a home," she says. "Lenders were throwing money at them, offering 100 percent financing and interest-only loans."

Ms. Stifler talked to them about being prudent with home financing. "I explained the desirability of making a 20-percent down payment in order to avoid PMI [private mortgage insurance], which can be costly," she says. "This couple decided to save money for a down payment. After two years, they were able to buy a home."

If you're going to stay in the house for five years or less, an adjustable-rate mortgage (ARM) is probably the best choice, because the initial interest rate will be lower than it is on a fixed-rate loan. So-called "3/1" and "5/1" ARMs are popular; they allow you to lock in an attractive rate for three or five years.

Ms. Stifler also relates the story of a physician in his mid-30s who "stretched and purchased the house of his dreams," as she puts it. "He and his wife found themselves strapped for cash, feeling guilty about their decision, and stressed about how to pay the next unexpected bill. They were able to pay routine bills and save some towards retirement and college, but they had no cushion for emergencies or unexpected expenses." The doctor was pessimistic about future salary increases; he actually anticipated possible decreases due to budget constraints.

To address these concerns, Ms. Stifler first reviewed the couple's spending patterns and found a few ways to reduce their expenses. "They refinanced their home mortgage and their home equity line of credit, which had been used for home improvements, into one new mortgage at a lower rate," she says. The couple agreed to put a hold on "extras" until one credit card was paid off. They lived with a weekly limit for "walking-around cash" for Starbucks and other "nice-to-haves," which were hardly necessities.

"Next," says Ms. Stifler, "we explored ways to increase income. The doctor was able to work an extra half-day a week on Saturday mornings; his employer was delighted. The additional income plus the reduction in expenses allowed them to pay down the credit card by the end of a zero-percent financing deal, so they avoided high interest rates. They set up a budget, saved for a modest family vacation the following year and built an emergency reserve. Once these goals are accomplished, the extra income will be used to increase retirement and college savings."

Moreover, this couple came to recognize that the at-home wife (who holds a Ph.D. in medical research) was their single biggest untapped asset. "With two young children," says Ms. Stifler, "the time is not ideal for her to return to work outside of the home just yet. But when the family is ready, her earning power will be their ticket to enjoy some extras in the near term, and eventually to have a mortgage-free dream house and a financially secure retirement."

Mastering the Mortgage Maze

Indeed, of all the purchases you make, your home may be the most important. As mentioned, mortgage rates are presently at low levels; low interest rates will allow you to get a larger loan. Nevertheless, before you make any commitments you should proceed cautiously.

- **Learn the language.** Mortgage lenders routinely throw around terms that may be unfamiliar. In order to help you understand what they are talking about, you may want to attend a home-buying seminar. Many lenders, real estate firms and nonprofit groups offer these programs.
- **Check your credit.** When you apply for a mortgage, lenders will check your credit history, so you should make sure that all of your current obligations are up to date. Before setting that process in motion, get your free

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annual credit report from Equifax (800-685-1111), Experian (888-397-3742) or TransUnion (800-888-4213), the three major agencies. If there are any errors, you may need to work with all three to get them cleared up.

■ **Choose the right route.** When you look for a home loan, you can work directly with one lender or you can hire a mortgage broker who will choose from among a number of lenders. If your credit history is not perfect, a broker may be helpful in shopping for the best possible deal. However, the broker's fee will come out of the amount you wind up borrowing.

If you prefer to work directly with a lender, ask people you know for leads. Find out who has had a good experience.

■ **Look for the right loan.** You can get a fixed-rate loan for either 15 or 30 years or an adjustable-rate mortgage (ARM) that changes its rate from time to time, up or down.

If you're going to stay in the house for five years or less, an ARM is probably the best choice, because the initial interest rate will be lower than it is on a fixed-rate loan. So-called "3/1" and "5/1" ARMs are popular; they allow you to lock in an attractive rate for three or five years. After that period, the rate may go higher year by year, but that won't make a difference if you plan to be in another house by then.

By buying the right home with the right mortgage, you can further several key financial planning goals: enjoying the place where you live, holding down housing costs and building wealth by owning an appreciating asset.