Financial Management for Healthcare Professionals

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In light of the recent Royal Commission into the finance industry in Australia, we thought it was timely to reiterate the importance of managing your finances correctly. Financial decisions are par for the course as you get older and face decisions on whether to undertake further study to get that better job or to buy a bigger home as you grow your family. But all these decisions have financial implications. By increasing your understanding of these implications, you can improve your 'financial hygiene'. Fundamentally, financial hygiene comprises these three elements:

- Cash flow - Understanding income (inflows) vs expenses (outflows)
- Debt management - Handling future expenses
- Insurance - Mitigating risks that have the potential to harm your financial position.

Budgeting and cash flow

Through cycles of income and expense, we develop an equilibrium that allows for the enjoyment of a lifestyle that encompasses required expenses and desired activities. However, what many everyday Australians don't have is an awareness of their financial position relevant to their long-term goals, or an appropriate strategy to deal with periods of low-income. This can also contribute to poor financial decisions that erode their own position both personally and professionally. You can build better financial awareness with just a few simple steps:

Step 1: Setting financial objectives and goals

Financial goals and objectives are the foundations to building a positive financial position. However, we tend to visualise these goals as lifestyle outcomes, rather than specific financial targets. The key is foreseeing these outcomes as SMART (Specific, Measurable, Achievable, Realistic, Time-bound) objectives for the short, medium and long term. For example, wealth creation, tax efficiency, debt reduction, and retirement planning are but a few priorities.

Example

Your goal might be 'to afford a good lifestyle in retirement', which may require the following objective: 'To retire at age 65 with a retirement income of $50,000 per annum in today's dollars.'

Note the objective now has a time frame and a dollar value.

Once major goals are established, identify other specific financial goals such as funding children's education, cash flow management for a large expenditure, or protection of assets through insurance and estate planning. It's important that specific targets are set on which plans can be built. By the same token, you come to understand there are real-time events which solutions will address. These events are then clearly identified and defined so that progress can be measured, evaluated and reviewed over time.

MIPS has developed financial literacy units in conjunction with Kaplan, a distinguished provider of financial literacy education. Access to this education is available to all MIPS members at no additional cost.

Debt management

- Fundamentals of borrowing
- Consumer lending
- Commercial lending
- Debt as an investment
- Debt strategies
- Building wealth

- Risk management

Get started

Budgeting and Cash Flow

- Setting your financial goals and objectives
- Preparing a budget
- Preparing a cash flow statement and calculating net worth

Get started

Understanding insurance

- Types of insurance
- General insurance
- Life insurance

Get started

Step 2: Budgeting

Budgeting focuses on the specific detail of your income and expenditure, such as groceries, insurance and car maintenance. This helps you to understand your day-to-day money management and spending patterns. This will enable you to not only determine where money is spent, but also identify fixed and discretionary spending.

You need to ensure that you have made a reasonable assessment of your income. Income should only be included in your budget if it's certain. If you receive a bonus for achieving a certain level of sales or a certain performance, this should only be included when the sales or performance has been achieved. The inclusion of money which is based on special circumstances can lead to problems if it isn't received as expected.

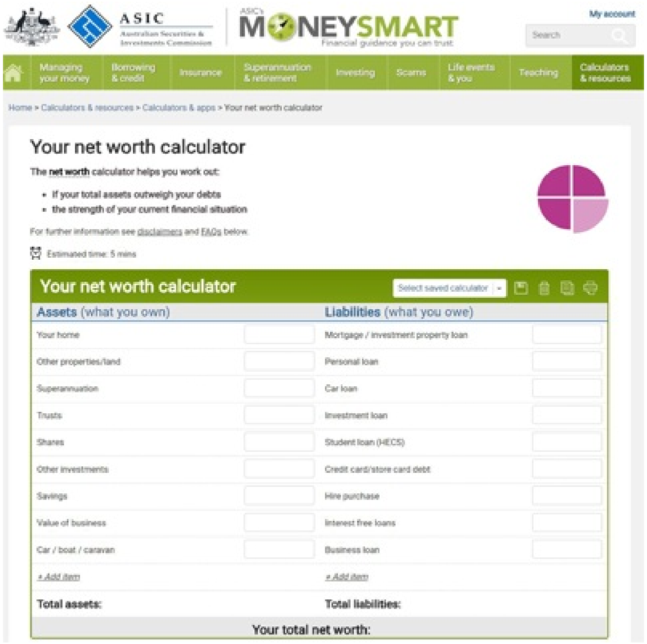
The same principle applies to your expenditure. This should be on the basis of expenses incurred based on known actual expenses in the past or for the coming year.

Expenses can be divided into:

- Fixed expenses — generally predetermined and usually set by a contract or agreement (e.g. mortgage repayments, loan repayments, insurance premiums).
- Variable expenses — where the amounts may change depending on the time of the year (e.g. food, clothing, utilities, medical expenses).

You should ensure expenses factor in increases in living costs and prices, and are realistic. There's no point having a budget if you're not truthful with yourself regarding your spending habits.

To get you started access ASIC's consumer website MoneySmart's financial calculators, including a budget planner.



Step 3: Understand your current financial position

To allow you to make appropriate financial decisions or plan financially for the future, it's important to understand and calculate your net worth.

Your net worth is the difference between what you own (ie assets) and what you owe (ie liabilities). A net worth statement shows your financial position at a particular point in time, often referred to as the 'balance sheet' in business practice.

Net worth = total assets - total liabilities

Generally, net worth should be positive where total assets are greater than the total liabilities, indicating that you own more than you owe. The circumstances in which individuals find themselves in with this equation will change depending on their life stage. Examples of these are:

- A young person starting work spends much of their income on entertainment while saving some for other purposes. Their cash flow should be slightly positive with a low net worth.
- A couple with children is paying off the home, educating their children, saving for the future and saving for retirement. This impacts on their cash flow and savings as they're spending much of their income. There may be occasions where they have to borrow to meet commitments.
- A couple with grown-up children will generally have the highest level of income which is spent on entertainment, dining out, holidays, insurance and saving for retirement. Their cash flow should be positive, and if they're prudent in increasing their savings and investment funding, their net worth should increase significantly.
- An older couple or person in retirement is relying on income from their investments to spend in their retirement, potentially supplemented by the age pension. Their cash flow may start to become negative and they may start to use some of their net worth to fund their living expenses.

Once you've established your current financial position, you'll be in a position to begin to consider any changes that are required to be made to your financial goals and objectives. Are they really achievable? Do you need to adjust them, or adjust your expenditure?

Bringing it all together

You should analyse all your financial goals and documents on a regular basis, or at minimum when you transition into a different life stage. Remember:

- Setting financial objectives and goals allows you to follow a plan towards building wealth and financial security.
- Budget and cash flow allows you to see how you are managing your finances on a day-to-day basis and the impact this will have on your ability to save and invest.
- The net worth statement provides an insight into your overall financial position. It indicates where you are in relation to savings and investments, as well as your capacity to reach your goals and objectives.

General advice statement

We hope that the information and general advice we provide will help you make a more informed decision. The information on this website is for general information only and does not take into account your objectives, financial situation or needs. MIPS is not a financial adviser. You should consider seeking independent legal, financial, taxation or other advice in light of your own circumstances and read the relevant product disclosure statement and financial services guide before you acquire any financial product. If you decide to apply for a product you will be dealing directly with that provider and not with MIPS.

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