EDITORIAL

The Dentist in Society
Part 3: Setting Priorities

In previous editorials the author had the audacity to make social statements; in this one things get really messy, as opinions are given on how to manage your hard-earned money. These opinions are provided by a colleague with no formal training in financial advising, economics, or business, and who gives no guarantees about his suggestions; it is now clear that this editorial series has sunk to new lows. The nadir is rapidly approaching and the reader is advised to put his/her time to better use.

In a perfect world, hard-working dentists should be able to have the lifestyle they desire, pay for their children's higher education, and secure their own financial future. But in a perfect world, people would not have dental problems and dentists would not be needed; thus, in the real world one has to identify the real priorities. Coming from a family values–oriented background, most dentists regard properly educating their children as a core value. However, we often tend to confuse proper upbringing with monetary issues. It has become a common belief that providing your children with a debt-free college education is one of your responsibilities. While it is likely that you will be able to provide your kids with substantial financial help during their higher-education endeavors, it may be absolutely wrong to center your long-term financial goals on this objective. One has to almost fight the indoctrination that if you are not able to secure sufficient funds to completely offset the cost of your kids' higher education, you must be a bad parent. Last time I checked, college loans were available at reasonable rates, yet, as hard as I searched, I could not find any retirement loans.

The first and foremost priority is to maximize every possible retirement tax shelter; it may take a few years before one can take full advantage of such shelters. Before maximizing these benefits, putting money aside for higher education makes no sense to me. Some of the savings opportunities are not obvious to the layperson; you will be surprised to learn the savings potential once you find a good accountant.

After reaching the point of taking full advantage of every possible tax shelter and still having additional discretionary income, what's next? Is it now time to start putting aside every additional penny for higher-education savings? There is no simple answer to this question. Let me present you with an alternative approach by shining a light on your home. (This author has not yet had the opportunity to state what house one should buy; thus, the discussion may be somewhat premature. This issue will be addressed in detail in upcoming editorials.)

Assuming you have purchased a house you actually can afford, it is likely that your mortgage will carry an interest rate of 5% to 7%. In good years, well-invested money will do much better than this rate, and given the fact that in some western countries the interest on your mortgage is tax deductible, it is a common belief that having your house paid in full early on makes no financial sense. However, have you ever thought about asking your financial advisor and accountant, point blank, where they stand on their mortgage payments? Do so and prepare yourself for a big surprise, as a lot of the successful ones have paid off their homes rather early. The honest ones will be more than happy to tell you that in life it's not all about numbers; owning your home outright provides a different mindset that goes beyond the simple math of tax benefits. In the case of unforeseen hardships, you are guaranteed to have a roof over your head and this provides a strong underlying sense of security. Thus, after maximizing all retirement benefits, one should strongly consider placing lump sums of remaining discretionary income—and I mean meaningful sums—toward one's mortgage principal. Keep in mind that this is equivalent to a 5% to 7% yield; while it may not sound too impressive, when the market goes through a rough downturn 5% to 7% is not at all a bad return.

Own your home outright early on and then start saving for college, and chances are you will be able to substantially support your kids from these savings and your income as they reach their college years. If, unfortunately, you will not be able to do so at the level you wish, college loans are always a viable option. Good parents are measured only by the unconditional love, lifelong support, and values they give their kids, not by the balance in their kids' college savings account.

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