

# Alberta Doctors' Digest

## Sponsored article: Strategies to prepare for reduced cash flow

Burnout was a serious issue for physicians long before the pandemic, and now the problem has only gotten worse. It seems as if everyone knows a physician who is thinking about cutting back their hours, retiring early or simply leaving medicine all together.

If you're considering reducing your hours, halting your practice for a while or retiring earlier than planned, it is important to take a fresh look at your financial planning.

Here are three initial ways to prepare for a reduced and perhaps uncertain income level so that you can take the break that you need.



How to prepare for taking a break

### Assess your cash flow and budget

#### Income

Estimate what your new income will be and subtract your practice expenses to determine your cash-flow needs. Look at reducing variable practice expenses: will you have enough with your revised business revenue to cover expenses for at least several months? Your financial advisor can guide you through various scenarios in your financial plan.

#### Expenses

Focus in on personal expenses that you can reduce or eliminate without much impact on your lifestyle such as entertainment, sports and dining out. Will you have enough to cover your needs, and those of your family? Raise some cash

### **Emergency cash**

If you have emergency funds already set aside, this may be the time to use some of it.

### **Line of credit**

As a physician, you may already have a line of credit secured by your home or other assets at favourable interest rates. If you're unsure, speak to your financial advisor to find the right solution.

### **Corporate retained earnings**

If you're incorporated and have retained earnings in your corporation, talk to your financial advisor and accountant about how best to manage a distribution. Be aware that there are corporate tax and personal tax implications to consider before making the distribution.

### **Investments**

If you absolutely must sell investments to increase your short-term cash flow, talk to your financial advisor to determine which option is best for you.

- **Non-registered investment account:** If you sell some assets at a loss, you can use these capital losses to offset capital gains – in the current year, in any of the preceding three years, or in any future years. If you sell and that triggers capital gains, you'll pay tax on 50% of the realized capital gains.
- **TFSA:** Withdrawals are tax-free, and you'll be able to recontribute these amounts later (the amounts withdrawn will be added back into your contribution room the following calendar year).
- **RRSP:** Withdrawals are taxed as personal income, and you won't get the contribution room back. Remember that there are automatic withholding taxes on your withdrawals. The funds are withheld as an instalment towards your final tax liability, which will be determined when you file your personal income tax return for the year.

### **Life insurance policy**

Consider using the cash surrender value on your life insurance. If you have a permanent life insurance policy, you may have access to the cash surrender value, but there will be tax implications. Doing this may result in a lower overall death benefit, and your policy may require future contributions to adequately fund it for life. Another option is to see if you can temporarily defer premium payments on the policy (which will extend the duration of your planned premium/deposit period).

### **Revisit your long-term planning**

### **Investment contributions**

If you make regular or pre-authorized contributions (PACs) into your RRSP, TFSA, non-registered accounts or corporate investment accounts, you could decrease the amount that you regularly put in or temporarily postpone the contributions.

### **Early retirement**

If you are contemplating moving your retirement forward, meet with your financial advisor. They will help you to review your vision and goals for your retirement and make adjustments based on your current priorities and unique circumstances.

### **Any questions?**

If you have any questions about these strategies and which options are best for you, please [contact an MD Advisor](#).\*

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