Not only do dentists face the constant pressure of keeping up-to-date with new techniques and equipment, meeting the ever-increasing expectations of patients and (for NHS dentists in practice) negotiating with Primary Care Trusts, but there is also the challenge of choosing how to invest any disposable income.

Many dentists have seen their investments drop considerably over the last 12 months, leading in some cases to a rethinking of their financial position. Those who are in practice and not general practitioners may find themselves with very little money at a time of life when they should be financially independent.

Save for the future

Because every dentist’s situation is unique, there is no one solution. Those dentists expecting a sizeable windfall from the sale of a quality practice, or an inheritance sum, need to realise that neither of these can be guaranteed, and that they, along with their peers, should start saving a significant proportion of their monthly income to ensure that their future is provided for.

As a rule of thumb, dentists without an effective investment strategy need to consider their short-term, medium-term or long-term options. For a short-term saving, there are high-interest bank accounts. For medium-term investments, dentists should make the most of their £7,200 maximum annual allowance for Individual Savings Accounts (ISAs). Long-term investment opportunities may include contributing to either the NHS or a personal pension.

Contrary to what some dentists believe, now is potentially a good time to make an investment in the stock markets. There is always an element of risk, due to the market’s current volatility, but the old investment tenet of ‘be greedy when everyone else is fearful’ might well be valuable advice.

The ability to earn money is of course a key factor in determining whether or not the dentist will achieve financial independence, and the ability to earn money depends on having the resources and the time to work and carry out the necessary day-to-day tasks. For instance, a dentist who cannot sit for long periods due to back injury has a severely curtailed ability to perform certain procedures important to diagnosis and treatment. A hand injury can effectively end a dentist’s active involvement in clinical duties, throwing his or her future into uncertainty. For these reasons, a comprehensive income protection strategy is important, as it will ensure that the dentist can still achieve financial independence even if he or she is unable to work due to health reasons.

Think of it like this: dentists in surgery have their homes and contents and their car, but what if they had a machine in the practice that printed several thousand pounds a month? Should they insure it? Of course they should, and they would, too.

Dentists without income protection who suffer an injury that prevents them from working are liable to see their whole plan for financial independence fall apart. Whether in practice or hospital-based, dentists without income protection should contact an independent financial adviser specialising in advising dental professionals, in order to discuss their needs.

Planning for retirement

Planning for retirement is not just about investing in a pension. It includes putting together a whole range of investment assets to provide a reliable income in the future. Pensions tend to be used in the majority of cases as they are an extremely tax-efficient form of long-term investment, especially for higher-rate taxpayers.

However, it does not suit everyone to invest in pensions as soon as the opportunity arises. Dentists recently set up in practice, or who have student debts to pay, might be better advised to make a success of their new business first, or even step onto the property ladder, before thinking about putting money aside for retirement.

This is not to suggest that making pension savings is reserved only for dentists settled into a successful career. Younger dentists, or dentists yet to pay off student debts, can always make short to medium-term investments, which carry the benefit of allowing the dentist to access the funds invested should they be needed. An ISA can be an advisable investment option, because if the dentist finds that he or she has overcommitted, the money can simply be taken out again.

Once a dentist is in a secure financial position and can afford to make regular pension payments to save for retirement, there are many reasons why he or she should start as soon as possible. thomas@essentialmoney.co.uk

Money Matters

What’s on your mind?

Invest wisely and allay your concerns about financial independence during the credit crunch. Thomas Dickson