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The Medical Professional's Wealth Coordination Audit

7 critical tax, investment, and liability gaps most physicians, nurse practitioners, and healthcare executives miss.

The 7 Gaps

GAP 1

The Backdoor Roth Pro-Rata Trap

Do you currently hold any pre-tax Traditional, SEP, or SIMPLE IRAs that are quietly exposing your annual backdoor Roth conversions to unexpected double-taxation?

At physician-level income, direct Roth IRA contributions are off the table. The workaround, commonly called a Backdoor Roth, involves contributing after-tax dollars to a Traditional IRA and converting them to Roth shortly after. It's a solid strategy, and one we use often. The problem is what happens when someone still has old pre-tax IRA money sitting around from a prior 401(k) rollover, a SEP IRA from moonlighting work, or a SIMPLE IRA from an earlier job.

The IRS doesn't let you cherry-pick which dollars get converted tax-free. Under what's called the pro-rata rule, every dollar you own across all your Traditional, SEP, and SIMPLE IRAs gets blended together for tax purposes. Convert a small after-tax contribution while a large pre-tax balance is sitting nearby, and a meaningful chunk of that 'tax-free' conversion becomes taxable income you didn't expect.

The fix is usually to clear the path first. If your current employer's 401(k) or 403(b) accepts incoming rollovers, moving those old pre-tax IRA balances into the workplace plan can clean the picture up entirely, leaving your Backdoor Roth strategy to work the way it's supposed to.

GAP 2

The Unsecured 457(b) Promise

If you participate in a non-governmental hospital 457(b) plan, do you know if your deferred dollars are exposed to the hospital system's creditors or if they force a full, taxable distribution the moment you change employers?

Many hospital systems offer a 457(b) plan alongside the standard 403(b), often marketed as a nice bonus way to defer more income. What's less often explained is that non-governmental 457(b) plans aren't held in a trust protected from creditors the way a 401(k) or 403(b) is. Legally, that money is still considered an asset of the hospital, which means if the hospital system ever faced serious financial trouble, those deferred dollars could be at risk.

There's a second wrinkle that catches people off guard even under normal circumstances. If you leave that hospital group, whether by choice or otherwise, many non-governmental 457(b) plans require the entire balance to be distributed on a schedule set by the plan, sometimes within a year or two. If that timing lands during a peak earning year at a new practice, you could be looking at a large chunk of deferred income becoming taxable all at once, right when your bracket is at its highest.

GAP 3

Missing the Mega-Backdoor Roth Strategy

Does your hospital or employer's workplace plan allow after-tax contributions and in-service distributions, unlocking the ability to shelter up to $72,000 annually?

Most people know the standard employee deferral limit for a 401(k) or 403(b). Far fewer know about the IRS's much higher 'annual additions limit,' which for 2026 allows total contributions, from you and your employer combined, of up to $72,000 into a single workplace plan.

The gap between the standard deferral limit and that larger ceiling is where the Mega-Backdoor Roth strategy lives. It requires two specific plan features, and you'll want to check your Summary Plan Description for the exact wording: after-tax contributions (distinct from Roth contributions) and either in-service distributions or in-plan Roth conversions. If your plan allows both, you may be able to contribute tens of thousands of additional after-tax dollars each year and convert them to Roth, building tax-free growth well beyond what most retirement savers ever access. It is worth five minutes with HR to find out.

GAP 4

The Own-Occupation Disability Gap

Does your employer-provided group long-term disability policy protect your specific medical specialty, or does it broadly define disability as any medical occupation?

Ask most physicians about their disability coverage and they'll point to the group long-term disability plan through the hospital. It's a reasonable starting point, but it usually has real limitations that aren't obvious until you actually need the benefit.

Group disability benefits are often taxable income if your employer paid the premiums, which quietly shrinks the real-world payout. Monthly benefit caps are frequently set well below what a specialist actually earns. And critically, many group policies define disability broadly, meaning if you can't perform your specific specialty but could theoretically do some other kind of medical work, the policy may not pay.

A private, individual disability policy with a true own-occupation definition, ideally specialty-specific, protects the asset that actually generates your income: your physical and cognitive ability to practice medicine in your field.

GAP 5

High-Income Tax Drag from Poor Asset Location

Are you exposing high-turnover mutual funds, dividend-paying stocks, or real estate syndications to high tax rates inside a taxable brokerage account?

Once investable income starts building, where you hold each type of investment starts to matter almost as much as what you hold. High-turnover mutual funds, dividend-heavy stocks, and real estate syndications generate taxable events every year, whether or not you ever touch the account. Held inside a taxable brokerage account at a high marginal tax rate, that ongoing tax drag quietly erodes returns year after year.

The fix isn't complicated in concept, even if the execution takes some coordination. Tax-inefficient holdings generally belong inside tax-deferred or tax-free accounts, while a taxable brokerage account is often better suited to low-turnover, tax-efficient growth vehicles like broad index ETFs. This is sometimes called asset location, and it's a different question entirely from asset allocation.

GAP 6

Practice Entity & Cash Balance Plan Disconnect

If you have 1099 independent contractor income or own a private practice, are you utilizing a Cash Balance Plan to shelter an additional six figures from federal and state taxes?

For private practice owners, partners, and 1099 independent contractors, the way your practice is legally structured has a direct line to how much you pay in self-employment tax. A mismatch between your entity type, whether that's a sole proprietorship, an LLC, or an S-Corp election, and your actual income level can mean paying meaningfully more in payroll taxes than necessary.

On top of that, high-earning practice owners often overlook Cash Balance and other defined benefit plans as a serious tax-reduction tool. Layered on top of a 401(k), a cash balance plan can allow a physician in their peak earning years to shelter six figures annually from federal and state income tax, dollars that would otherwise be taxed at the highest bracket the year they're earned.

GAP 7

The Malpractice Blindspot on Personal Assets

Does your personal umbrella liability policy scale in lockstep with your rising net worth to protect you from non-clinical lawsuits?

Physicians are disproportionately likely to be named in a lawsuit, and clinical malpractice coverage only extends to what happens inside the clinical setting. It says nothing about what happens if a delivery driver slips on your icy front steps, or your teenage son borrows the car and causes a serious accident.

As net worth grows, especially for physicians who've built substantial retirement accounts, real estate, or a practice stake, personal liability exposure grows right alongside it. Yet we regularly see personal umbrella liability coverage that hasn't been increased in years, sometimes sitting well below what the household could reasonably need to protect. This is one of the simpler gaps to close, and often one of the least expensive, but it needs to scale as your financial picture does.

Keep this print-ready guide on your desk, or schedule a low-pressure conversation with a fiduciary to coordinate your wealth.

Schedule a 30-minute strategy call: clearpathfinancialpartners.com/contact
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