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When Will You Be Ready To Retire?

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A few years ago, I met with a 65-year-old oral surgeon planning to retire from his group. After some pressure from his partners, this fine specialist had come to realize that his skills and stamina were slippin and that it was time for him to retire.

After we reviewed his finances and the legal aspects of withdrawal, he gave me a frightened look that I will never forget. He said: "I've never really done anything else but practice oral surgery for the past 40 years; I don't know what I'll do in retirement!"

Over the next two years, he frequently stopped by to visit his former partners, but then the visits stopped. he slipped from view, and he died shortly thereafter. This unfortunate doctor knew retirement would not welcomed, so he never really planned for it.

In contrast, I see numerous doctors in their mid-50s who profess that they are eager to retire. Having decided that practice isn't as satisfying as it used to be, they declare an intention to pull out in only one o two years.

However, most of these doctors back off as the projected date approaches. Their plans for personal activities begin to pale under intense scrutiny as the date approaches, making continuing in practice more attractive after all.

Personal Decisions

A successful retirement requires much more than satisfying the financial concerns discussed later in this article. In reality, the biggest hurdle for many doctors is to find something to retire to that will truly challenge them emotionally and intellectually, and continue to feed their sense of self-worth. All too ofte doctors decline rapidly when they lose the sense that each succeeding day will not be pleasurable, challenging, or rewarding. So don't count on gardening, golf, and world travel to provide an emotionally satisfying retirement.

Still Working

The rapid growth of wealth over the past decade has made retirement a financially viable option for man doctors at much younger ages than in the past. Yet the reality is that most doctors will need to keep working–by changing careers, rather than terminating employment altogether–if they are to enjoy an emotionally satisfying retirement. The Bureau of Labor Statistics recently reported that 54% of all men i their 50s and 60s are now working after retirement, vs. only 43% in 1984. Many doctors find satisfying jobs within the profession of dentistry, whether in administration, low-key office practice, locum tenens posts, or volunteer positions. The opportunities to work in underserved areas, both internationally and in the United States, are plentiful if you simply look for them, and moving to a new, less rigorous dental career will cushion the shock of total withdrawal from practice life.

For other doctors, non-dental activities will prove a fine choice. There are many other careers and volunteer positions outside of dentistry that can provide the doctor with rewarding and challenging experiences.

Financial Analysis

In recent years, I have worked with numerous doctors to determine if they are financially able to retire. T first step in the process is to determine your annual cost of living. Interestingly enough, most doctors typically don't know what's required to meet their monthly personal living expenses (after taxes). While t Bureau of Labor Statistics reports that doctors age 65 and older spend less on food, clothing, housing, transportation, and entertainment than during their preretirement years, my experience is that increased travel, added expenses for a second residence, and other costs usually eat up the difference. As a result, there's usually no change in the annual cost of living after retirement for most doctors, so it's wise to discard the popularly held notion that your retirement income needs will only be 60-70% of that during your earning years.

The next step is to prepare a personal financial statement, usually with the assistance of your CPA. This personal financial statement should list not only every asset owned by the doctor, but also the annual income generated therefrom. The doctor should also include a projected practice sales price, along with t annual income generated therefrom, based upon a seven-year payout using a reasonable (8-9%) interest rate.

The annual income to be generated from the doctor's retirement plan and IRAs must also be calculated. F most doctors, it will make sense to begin withdrawals from these accounts at the latest possible date (beginning at age 70-1/2), assuming that there is sufficient income from other assets to fully fund their retirement needs. This is particularly so since Congress recently repealed the 15% excise tax that otherw applied to "excess distributions" (above $160,000 annually) from these accounts.

For example, a doctor age 70, with a spouse age 68, would have a joint life expectancy factor of 21.5 yea at the beginning date of withdrawals. The doctor can use this factor and an appropriate interest rate to determine the monthly payout from a retirement plan and IRA accounts in order to define this future income stream.

Social Security benefits should also be estimated. The doctor should contact the Social Security Administration at (800) 772-1213 and ask for a "Request for Earnings and Benefit Statement" form, in order to determine future estimated Social Security benefits. As a general rule, doctors should not plan to withdraw Social Security benefits (if they are then available) until they discontinue their employment. Otherwise, doctors age 62-64 lose $1 in Social Security benefits for every $2 they make in excess of $8,280. In addition, doctors age 65-69 lose $1 for every $3 earned over $12,500, although that limit will rise in the future.

On the other hand, for doctors who discontinue employment prior to age 65, I would certainly recommen that they take Social Security benefits beginning as early as age 62. Even though that means that the doctor's check will be roughly 80% of the amount that would have been received by waiting until age 65 the shaky Social Security system requires you to take the benefit while it's still there. In addition, disciplined savers can invest their checks for three years and let the money grow, which will make them much better off than if they had waited until age 65 to begin taking benefits. The doctor should also consider other income generated during the retirement years, including earnings from part- or full-time employment.

Once these calculations have been completed, you will have some idea if your annual income, projected out over your retirement years (assumed to age 90), will be sufficient to meet your needs. You should further assure that there is enough reserve to provide a "cushion" should changes in economic conditions declining health, lifestyle changes, or other unanticipated situations arise.

Some doctors may also want to calculate the amount of savings needed for a comfortably secure retirement. Table 1 shows how much savings a doctor will need for every $100 of retirement income needed (adjusted for inflation). Accordingly, if you wished the money to last for 35 years, and expected t earn 8% on your investments, you would need $20,300 in total savings dollars in order to provide $100 a month in real, inflation-adjusted, retirement income dollars. This assumes a 3% annual inflation in the years ahead, which is in line with recent experience.

Table 2 gives a different view of available income at retirement. This chart shows how much of the doctor's investments can be spent each year if the aim is to "die broke". The intersection of the average annual return column and the number of years in retirement shows the percentage of the doctor's investments that can be spent the first year in order to keep the doctor's savings amount intact. For each following year, the dollar amount of the withdrawals should be increased approximately 4% to account f inflation.

The above analysis will provide you with a firm basis upon which to determine your personal and financ ability to retire. In contemplation of retirement, however, there are several other factors which must be considered.

Additional Considerations

1. Maintain a high level of practice income prior to its sale. The doctor's natural inclination is to let the practice decline in the years preceding retirement. That's a major mistake, since the biggest factor in determining the practice's sale price will be its profitability. Accordingly, a doctor should take whatever steps are necessary to maintain the practice at its peak earning power until the date of sale.

2. Establish a plan for the practice real estate. In most cases, the doctor is better off to lease the office to the practice buyer, rather than selling it along with the practice. In any event, the doctor should execute a long-term lease that provides an automatic escalation of 3% a year and that is structured on a triple-net lease basis (lessee pays for all property taxes, insurance, utilities, and repairs and maintenance). Doing th now will save the doctor considerable grief when the sale of the practice actually occurs.

3. Review the investment of personal and pension funds. As doctors approach retirement, they must be much more cognizant of the potential risk of loss from their investments. Doctors should eliminate risky investments, including second mortgages, foreign securities, etc., which hold potential for significant los As one faces retirement, the plan should be to minimize risk and provide reasonable returns consistent w safety.

4. Dispose of unnecessary assets. These may include an airplane, sailboat, or other assets that simply cannot be justified in retirement. With the recent tax law change allowing a $500,000 gain exclusion fror the sale of a personal residence, doctors should also consider whether they wish to remain in their curren personal residences or move to smaller, less expensive homes.

5. Review debt. Doctors should also determine if they would be better off to eliminate all debt at retirement, by comparing the rate of return on the debt owed against the rate of return on personal investments. While there are certain psychological benefits to being "debt free", the decision should be based on the economics involved.

As you can see, planning for retirement is not a simple matter. Very often doctors are unable to handle these decisions on their own, and need someone they can trust to assist them in making these important decisions. I certainly would not place this trust in a banker, insurance agent, stockbroker, or anyone else who sells any kind of investment product or program. Your CPA, tax attorney, or business consultant cai prepare the proper analysis to assure that you make the correct decisions for this important phase of your life.

TABLES

TABLE 1
AMOUNT NEEDED FOR $100* OF MONTHLY INCOME

Years in Retirement	Rate of Return 4%	6%	8%	10%	12%
25	$26,300	$21,200	$17,400	$14,600	$12,500
30	$30,800	$23,900	$19,000	$15,600	$13,100
35	$35,200	$26,200	$20,300	$16,300	$13,500
40	$39,300	$28,200	$21,300	$16,800	$13,700

*Inflation-adjusted.

Table. 1

TABLE 2
PERCENTAGE OF INVESTMENTS THAT CAN BE WITHDRAWN PER YEAR (ZERO BALANCE AT END OF RETIREMENT PERIOD)

Average Annual Return	Years in Retirement 10	15	20	25	30
10.0%	12.7%	9.6%	8.1%	7.3%	6.7%
9.5%	12.4%	9.3%	7.8%	6.9%	6.3%
8.8%	12.2%	9.0%	7.4%	6.5%	6.0%
8.2%	11.9%	8.7%	7.1%	6.2%	5.6%
7.6%	11.6%	8.4%	6.8%	5.8%	5.2%
7.0%	11.3%	8.1%	6.4%	5.5%	4.9%

Table. 2