

Planning for Retirement

Preparing for the psychological and financial challenges that ensue.

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From the fear of outliving one's savings to determining how to fill a newfound surplus of free time, several financial and psychological challenges are associated with retirement. In an unstable economic environment, retiring from medical practice can seem even more daunting. Fortunately, proper planning can help ensure you are prepared to adapt to and enjoy this phase of life.

PRACTICE PREPARATION

One of the issues that must be resolved early in the retirement planning process is what will happen to your practice after you retire. It is wise to start considering the matter 10 years before retirement. Although action is not required that far in advance, it is important to have a process in mind. How a practice prepares for a physician's retirement depends largely on whether it is a group or solo practice and whether it is a private or a government- or university-based practice. If you are in solo practice or a small practice with just a few physicians, it will be necessary to find a physician to replace you. This cannot be done overnight.

If you have partners, you will likely have to sit down with them and determine how your exit from the practice is going to happen. Large practices often have buy-sell agreements and have spelled out exactly how a partner will retire and what the time frame will be. Recently, however, these previously drafted buy-sell agreements have become more and more financially cumbersome to complete.

It may take years to find the right person to join the practice. In a group practice, you must ensure that a prospective employee's personality and work ethic blend with those of the other partners. If you are in solo practice, there are more significant challenges, such as introducing a new, younger doctor and making your patients comfortable with the change in command. It is often difficult to determine how a new physician will fit in with the existing partners and patients, as every practice has a different culture. It is beneficial, therefore, to start planning well in advance of actual need. It is not unheard of for doctors to hire one or two young associ-

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ates before finding the proper fit.

When hiring a replacement physician, it is also important to be aware of differences between the younger generation of doctors and those who are nearing retirement, the baby boomers. In general, physicians who belong to the baby boomer generation equate their jobs with their identities. For these doctors, their jobs are not strictly from 9 AM to 5 PM; they are involved with their work 24 hours a day, 7 days a week. The current younger generation of doctors is much better at achieving a healthy work-life balance. They tend to be less interested in going out on their own or running their own practices; instead, they generally prefer to work for hospitals or big practices with less administrative responsibility and more leisure time. It is a completely different mindset.

PSYCHOLOGICAL FACTORS

Individuals in all professions face psychological challenges upon entering retirement. Doctors, however, may have a particularly difficult time for several reasons. First, many physicians have a large portion of their personal identities tied up in their professional identities. Second, once retired, physicians are, for the first time in awhile, required to wake up and map out their own days. Prior to retiring, most doctors arrive at the office and have their days planned for them by an assistant or scheduler. Suddenly, the rest of their lives is quite literally unscheduled.

Additionally, most physicians tend not to have many hobbies, as medicine is a jealous mistress, so to speak.

Doctors work all day, read journals and complete paperwork at night, and travel to conferences, which leaves little time for extracurricular activities. Once retired, many medical professionals are overwhelmed with free time. Some expect to enjoy golf or travel; neither of these activities can be performed around the clock, and sometimes, physical challenges hinder people's ability to do either. For these reasons, it is a good idea for physicians to develop hobbies and interests before they retire.

MARITAL CONCERNS AND FINANCIAL PLANNING

Many physicians in the baby boomer generation have so-called traditional marriages, in which their spouse does not work outside the home. In this situation, it is unrealistic for the physician to expect that, just because he or she has retired, his or her spouse has also retired. Typically, the spouse will do the same things he or she did before the physician retired and will therefore have obligations and interests of his or her own. It is necessary to formulate a retirement plan that does not revolve around your spouse. If, on the other hand, your spouse did work outside the home and is retiring as well, there are even more psychological issues to sort out, as the two of you will have to grow accustomed to spending more time together.

Because people now routinely live into their 90s, many individuals will have 30 years or more of retirement. Therefore, it is essential to ensure that you have sufficient funds to support yourself for this period of time. Economic turmoil during the past several years has decimated many retirement portfolios. Even though portfolios bounced back robustly in 2013, the trend may not continue. Many physicians are therefore postponing retirement and plan on working well into their 70s.

Psychologically and practically, the emphasis in investing for an accumulation portfolio, which physicians have done all their lives, is dramatically different from a distribution portfolio. This paradigm shift focuses on pulling out money rather than putting in money. Dips in market performance should come back over time, but in a distribution portfolio, once you withdraw the money, it never comes back. The sequence of returns then becomes most important.

An important step for many doctors is to create a retirement budget. People often ask, "How much money do I need to retire?" The answer to this question involves another question: "How much money are you going to spend?" For example, \$5 million may sound like a lot of money. If you are spending \$500,000 per year, however, that nest egg will not last long. It is necessary to create a realistic retirement budget. If you are married, this should be done with your spouse, as retirement must be

a joint effort. Funds needed to cover necessary expenses should be invested conservatively, whereas funds for more discretionary items can be invested more aggressively. If at all possible, it is advisable to set aside a year or so of living expenses in cash prior to retiring.

DO NOT RUN OUT OF MONEY

To avoid running out of money, consider pulling no more than 4% plus inflation out of your portfolio every year. After a couple of years, if your portfolio has done well, you can give yourself a "raise" if you wish. If you start pulling out too much (eg, 6% or 7%) and hit a couple of bad years, you may not make it. You do not want to run out of money when you are 85 years old.

The old rule of thumb was that, in retirement, you will need 60% to 70% of the living expenses you incurred when you were working. Sometimes, however, a greater percentage is needed. Retirement can be divided into three stages: go-go, slow-go, and no-go—the early, middle, and late phases, respectively. The go-go and no-go phases are the most expensive. Go-go is expensive in all locations, as this is the time when individuals travel and do everything that they could not before retiring. The no-go phase depends upon whether long-term insurance was purchased and the health problems of the retired couple. Nursing homes are expensive, and long-term care is not covered by Medicare.

Government retirement programs are in the midst of dramatic change due to the economic instability that the US government is facing. During retirement planning, you must thoroughly investigate what your benefits will be. Learn what the government provides, and then determine what you will need to cover the difference.

CONCLUSION

Overall, the first 3 years of retirement are the most important, as this is the adjustment phase. It can be the most exciting and rewarding time of your life if you plan accordingly. If you can successfully transition during this initial phase, you will have a successful, comfortable retirement. ■

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