FINANCIAL MANAGEMENT

# Retiring during a weak economy

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Like many physicians, Hippocrates may have never pondered his own retirement. Most medical professionals are so busy healing the sick by providing both physiological care and psychological guidance that they have spent little or no time attending to the body of their future. Although Hippocrates may have never had to worry about how a poor economy could wreak havoc on his own financial body, he may have had to decide how to protect himself from Spartan attacks. Today's physicians may never have to fend off hostile attacks from neighboring surgeons, but they may well have to determine what armor to don when their retirement plan accounts are under siege.

The vast majority of advisors urge their physicians to stand firm, hang in there, and not to panic by selling off stocks or mutual fund losers. However, the most salient question is how much money can a doctor afford to lose before he or she finally takes stock, no pun intended, has an epiphany, and searches for an oasis where their money earmarked for retirement is safe? A traditional financial planning guideline has been to subtract one's age from 100 and the remainder is the percent you can afford to have at risk. In other words, if you are 55, then you should keep no more than 45% of your investment assets in vehicles that can break down. By the time you reach age 65, no more than 35% of your funds should remain at risk.

Unfortunately, that formula is not a panacea. One doctor's tolerance for risk may be 180 degrees apart from a colleague with identical assets. That is why it is vital for physicians to have a bi-annual financial x-ray. A specialized tool for medical professionals is called the Financial Health Spectrograph which categorizes a medical professional's assets by level of risk and further compares the appropriate levels of risk during pre-retirement and throughout retirement. Included with this graph should be an analysis of physicians' assets, debt,

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and income needs adjusted for inflation.

Although time may heal all wounds it may not suture all financial hemorrhaging. A shortening timeline is as nefarious as a life-threatening disease when planning for retirement. If a pre-retiree continues along a dangerous path without seeking the correct treatment and medicine, his or her savings can be depleted. That point cannot be iterated too strongly, particularly during the most anemic of economic years. That begs the question how can a medical professional hope to retire when the economy suffers from malnutrition?

The answer may be that without the proper diet, a medical professional may not be in the best shape to retire. In my 22 years of practice, I have observed that most physicians are not cognizant that they are financially overweight. Although they espouse a balanced and conservative philosophy when asked about their risk tolerance, they often maintain a menu of assets that once digested prove to be highly volatile.

There is nothing wrong with a more aggressive asset diet when a doctor is young and has at least 15 years of full- time employment ahead. When approaching the time at which earned income disappears and funding for living expenses depends on distributions from retirement plans and social security, an overly aggressive approach can quickly diminish or undermine the supply of financial nutrition to one's retirement account.

The following three scenarios illustrate some of the challenges ahead for the retiring medical professional. In each of these situations, there is an apparent shortfall of necessary income. To successfully navigate the bumpy road to retirement, it is mandatory to find a retirement specialist who understands your individual needs, will keep you fully informed of changes in the law that affects your plan, and who can guide you through what should be the most enjoyable years of your life.

Scenario 1

Dr. Ruth and Tom Jacobs:

Ruth is a 59-year-old ob-gyn. Tom is a 63-year-old small business owner. Ruth has amassed $850,000 in a KEOGH. Tom has accumulated $625,000 in a profit sharing plan. They have two children, a daughter, Kyra, aged 29, and a son, Jeffrey, aged 26, who are both married with children. Ruth is accustomed to earning $400,000 a year and Tom makes $150,000 a year. Their daughter is finally self-sufficient, but their son still lives at home. Both Tom's and Ruth's fathers are deceased, but their mothers are in their mid-80's and in poor health. Tom's mother is financially independent and Ruth's mother is in a nursing home and will run out of money in 18 months.

If Ruth and Tom each rollover their retirement plans into IRAs the total retirement savings equal $1,425,000. If they can earn 5% a year, their retirement accounts will generate roughly $70,000 income. With Social Security, they will earn another $25,000 annually. Earning 10%, would produce $142,000 of income, about one-fourth of which they are accustomed to living on. In today's economy, trying to earn 5% can be difficult. If they can live on 25% of their working income, they could withdraw about 10% annually from their retirement accounts. Assuming they can earn 5%, then their approximate net loss to their retirement accounts would be 5% annually, meaning it would last 20 years before depleting. They have several choices:

1. Continue working full-time.
2. Work part-time.
3. Create a budget and determine how to cut expenses.
4. Tell their son he must pay rent in order to live at home.
5. Plan financially for Ruth's mother's care

Scenario 2

Bill and Helen O'Brien

Bill is 66 and is a child psychiatrist earning $200,000 a year. Helen is 62 and is a bank executive earning $100,000 a year. Bill has a hospital 403B plan valued at $1 million and Helen has a 401K plan worth $500,000.

Once again the question is if they are accustomed to living on $300,000 of joint income per year, how much belt-tightening must they do to enjoy a work-free retirement?

They have one daughter aged 40 who is a successful advertising executive with two children aged 6 and 3.

Both Bill and Helen's parents are deceased.

Utilizing $1,500,000 as a retirement nest egg, if they can earn 5%, they would generate $75,000 of income. Added to that is their Social Security, which totals $3,000 per month. That gives them an income of $111,000 which is less than one-half of what they earned during their years of employment. They should:

1. Develop a budget.
2. Consider selling their home and find a smaller abode and perhaps have funds leftover to generate additional income.
3. Schedule a meeting with an experienced retirement specialist who can guide them toward a clear understanding of their best options for enjoying their retirement.

Scenario 3

Dr. Ed Schmidt is a pulmonary specialist aged 68. Harriett Schmidt works part-time at a preschool and is 60. Ed has a hospital 403B valued at $700,000 and his own KEOGH worth $1,500,000. Harriett has two IRAs that equal $150,000. They have three children ages, 36, 38, and 40, all with excellent jobs. Both of their parents are financially secure and in good health. The Schmidts collectively earn $350,000. They just made the last payment on their mortgage. Ed and Harriett would like to have an income of $175,000. Their retirement accounts total $2,250,000. If they can earn 5%, that would produce $112,500, plus $25,000 from Social Security, which would mean they are

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about $37,500 short of their goal.

They must consider:

1. Continuing to work part-time.
2. Eliminating unnecessary expenses.
3. Selling their $1.5 million-dollar home and moving to a condo that costs less than $800,000 and using their additional$600,000 after real estate costs from the sale of their house to generate additional income of $30,000 to $40,000.
4. Find a retirement specialist who can assist them in achieving their goals.

Insufficient income is the most common disease that destroys most people's retirement plans and prevents them from maintaining a financially secure retirement. Therefore, it is mandatory to plan ahead by saving now and saving more each year until one retires.

In uncertain economic times, a medical professional over age 55 should maintain a minimum of 45% of their retirement savings in a vehicle that has anti-market brakes and all-market drive: In other words, a vehicle that provides safety of principal, has the ability to capture market gains during the best economic years and most important, holds onto all gains during the worst years in the economy. ■

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