A Pre-Retirement Financial Checklist

[Editor's Note: This is a pre-retirement financial checklist from one of my monthly columns at Physician's Money Digest (MDMag.com) discussing debt management, insurance planning, income planning, estate planning, and even the purchase of large-ticket items.]

The author on the first pitch of the classic West Crack, 5.9, Tuolumne Meadows, Yosemite National Park

As doctors enter their 50s and 60s, many start dreaming about retirement; unfortunately, properly planning for retirement requires as 1.much time and effort as planning a career.

Truthfully, the non-financial aspects of retirement are perhaps the most important. Unless your retirement is a "forced retirement" due to disability or job loss, you want to make sure you're "retiring to" something rather than just "retiring from" something.

Physicians tend to be type A personalities, and don't rest on their laurels well. Physician identities are also often closely tied to their careers, which further complicates the complete cessation of work. However, in this article, I'm going to be discussing some financial items you probably ought to check off prior to retiring.

1. Debt Reduction

There is always a mathematical argument out there that carrying low or even moderate interest rate debt while investing your money can lead to greater wealth in the long run. However, these arguments usually ignore both the risk of this "investing on margin" and the income requirements necessary to service the debt.

While there may be "good debt" for someone in their 20s and 30s, by the time you are getting close to retirement, there is no good debt. Every bit of debt you pay off reduces your overall financial risk and the income your assets need to produce to maintain any given retirement lifestyle.

Are student loans paid off?

I advocate most doctors pay off their student loans within 2 to 5 years of completion of training by living like a resident until loans are gone. Some might consider that extreme, but there is no doubt that it is a terrible idea to carry student loan debt, whether it is your own or that of your children, into retirement.

Is consumer debt paid off?

There is no reason to ever carry a balance on a credit card, and very little reason to have any significant debt for automobiles or "toys" such as boats, airplanes, RVs, timeshares, etc. Certainly, if you have any of this "bad debt," it should be long gone before any serious consideration of retiring takes place.

Is the mortgage on your home paid off?

While mortgages are often considered "good debt" – and are available these days at very low rates – having a paid-off home, especially in retirement, frees up a big chunk of income, provides an important inflation hedge, and allows you a palpable feeling of financial security.

Plan to have yours paid off by retirement, whether that means taking out a shorter mortgage, making extra payments, or downsizing prior to retirement.

Are investment property mortgages paid off?

Using leverage in real estate generally does boost returns. However, in retirement, you want those investments providing as much income as possible, and the best way to do that is to pay off the mortgage.

2. Can you cancel your term life insurance?

One great measure of truly being financially independent is that if you die, your loved ones don't have to change their financial plans. Term life insurance should be kept in place until you reach that point. If you (and your loved one) are not comfortable canceling your life insurance, you may not be financially ready to retire.

3. Can you cancel your disability insurance?

If you're financially independent, you shouldn't need it.

4. Do you have a plan for health insurance?

If your employer has been covering your health insurance premiums, will you have enough financial resources to do it on your own, at least until you qualify for Medicare at 65? Remember that Medicare does not cover everything.

While this is less of a big deal for a self-employed doctor who has been paying his own premiums for years, it prevents many people from retiring as early as they would like.

5. What is Your Income plan?

Although it may seem obvious, I have been surprised at how many people come out of retirement because they were unable to match their retirement income to their spending needs.

A lifetime of budgeting may be the best preparation for this, but we all know how few of us really budget seriously.

Do you have a realistic assessment of how much you will spend in retirement?

Start with what you are spending now, subtract out everything you won't have to spend due to not working (such as commuting costs, payroll taxes, and CME expenses), add in expenses you will have when you are not working (perhaps extra traveling or healthcare costs), and add a little extra as a fudge factor.

Add up your non-portfolio sources of income

If you qualify for Social Security or a pension, you can count that. If you have (or will) purchase an immediate annuity, you can count that, too. You may also wish to add in the net operating income of your rental properties (usually about 55% of your gross rents), but keep in mind that large expenses, such as a new roof or windows, will eat into that income significantly.

Understand what the 4% rule means

As a general rule, you can withdraw something like 4%, indexed to inflation each year, of a reasonable portfolio and expect it to have a very good chance of lasting 30 years. That means if you need your portfolio to provide $100,000 in income each year, you need a portfolio of $2.5 million.

Do you have a plan for Social Security?

Delaying Social Security claiming until age 70 provides an important inflation hedge and longevity insurance. But that obviously reduces your income if you retire well before 70, like many doctors wish, or are forced, to do.

Also keep in mind there are real advantages to having each member of a couple claim Social Security at a different age.

6. Go for a test drive

Live on your expected retirement income for 6 months prior to retirement. Is it reasonable or do you feel pinched all the time? Better to find out while you still have a job.

What do you think I missed, got wrong, or even got right? What else should someone on the eve of retirement have taken care of before pulling the "ejection lever?" Comment below!