# Dr. E's Path to Financial Independence: A High-Income Case Study

*[Editor's Note: You may recall the Physician on FIRE series on Doctors A-D, each of which spent different amounts of money. Today, we move even further with Dr. E- the biggest spender of all. Can big spenders FIRE too? You betcha. ]*

I've shared **my personal path to FI** and we've explored a host of scenarios for our hypothetical **4 physicians**. Today, I'd like to take a deep dive into the finances of another real physician who we'll call Dr. E. The name has been changed (it's not short for Dr. Evil), and the details rounded off, but we're talking about one of your fellow readers and his actual finances.

The good Dr. E is a hard-working physician, a few years into his post-fellowship career. He earns a handsome salary, but boy, oh boy, does he work hard for the money.

In 2016, the independent contractor worked three jobs, took a total of 4 weeks off, and worked most weekends — 30 out of 52 to be exact. There are bills to be paid, you know, and the bills don't pay themselves. Dr. E pays them to the tune of about $200,000 a year in total output.

Is Dr. E just another Dr. Dahlgren, **the spendthrift of our 4 physicians** who had no hopes of reaching financial independence? Not exactly.

First, Dr. E earns double. His income from his main job, side job, and moonlighting totaled a bit more than **$600,000** last year. That's double the salary of the 4 Physicians. Second, he has aspirations to become financially independent in a timeframe that most would consider early — by his 55th birthday, if not earlier. Dr. D had no prayer of that happening.

## Can Dr. E Retire Early on a $200,000 a year budget?

Let's compare them line by line on the savings calculator.

| Dr. D vs. Dr. E | Dr. D | Dr. E |
|---|---|---|
| **Salary** | **$300,000** | **$600,000** |
| **Match & Profit Sharing** | **$16,000** | |
| **Compensation** | **$316,000** | **$600,000** |
| **Income Taxes Paid** | | |
| Federal Income Tax | $63,000 | $150,000 |
| State Income Tax | $11,000 | $42,000 |
| FICA | $12,000 | $36,000 |
| | **$86,000** | **$228,000** |
| **Post-Tax Income** | **$214,000** | **$372,000** |
| **Pre-Tax Spending** | | |
| Health & Dental Ins. | $5,000 | $5,000 |
| **Pre-Tax Investments** | | |
| HSA investment | $0 | $5,000 |
| 401(k) | $4,000 | $18,000 |
| 457(b) | $0 | $18,000 |
| | **$4,000** | **$41,000** |
| **Take-Home Pay** | **$205,000** | **$326,000** |
| **Post-tax investments** | | |
| 529 Education Funds | $5,000 | $15,000 |
| Roth IRA (backdoor) | $0 | $11,000 |
| Taxable Investment | $0 | $100,000 |
| | **$5,000** | **$126,000** |
| | | |
| **Annual Spending** | **$200,000** | **$200,000** |
| **Saving % Calculation** | | |
| All contributions* | $20,000 | $152,000 |
| Monthly Contribution | $1,667 | $12,667 |
| Max Possible Contribution | $225,000 | $367,000 |
| **Savings Rate (Net)** | **8.9%** | **41.4%** |
| **Savings Rate (Gross)** | **6.3%** | **25.3%** |
| **Required Nest Egg for FI** | **$5,000,000** | **$5,000,000** |
| Years to Goal at 2% Real | **89.7** | **25.3** |
| Years to Goal at 4% Real | **60.0** | **21.0** |
| Years to Goal at 6% Real | **46.3** | **18.2** |

Although Dr. E’s salary is double, he doesn’t receive a match or profit sharing. Of course, his taxes are substantially higher than Dr. E’s — far more than double, reflecting the progressive nature of income taxes. Also, as an independent contractor, he’s paying both the employer and employee FICA taxes.

With three children, Dr. E is contributing more to his [529 plans](). He’s got enough income to max out his [tax-deferred]()

space, complete his and hers **Backdoor Roth IRAs**, and he invests $100,000 a year in a taxable account.



With reasonable expectations of 2% to 6% real (inflation-adjusted) returns, Dr. E can be financially independent in 18 to 25 years with $5,000,000 and a $200,000 a year spending habit.

It sure is nice to have that income!

Dr. E has studied the numbers in the chart above, and he likes the idea of reaching his goal right around his 55th birthday as long as he can eke out a 4% for better real return.

**But he's not happy.** Why not? He worked 30 weekends last year. He worked three jobs. He doesn't mind working like a resident for a few more years, but Dr. E has recognized that this schedule is unsustainable. His kids are growing up too fast, and he's going to want to slow down soon.

## What if Dr. E Worked Less?

Let's run the numbers for Dr. E reducing his workload, and earning "only" $550,000 or $500,000.

| Dr. D vs. Dr. E | Dr. D | Dr. E | Dr. E $550K | Dr. E $500K |
|---|---|---|---|---|
| **Salary** | **$300,000** | **$600,000** | **$550,000** | **$500,000** |
| **Match & Profit Sharing** | **$16,000** | | | |
| **Compensation** | **$316,000** | **$600,000** | **$550,000** | **$500,000** |
| **Income Taxes Paid** | | | | |
| Federal Income Tax | $63,000 | $150,000 | $130,000 | $110,000 |
| State Income Tax | $11,000 | $42,000 | $38,000 | $35,000 |
| FICA | $12,000 | $36,000 | $34,000 | $32,000 |
| | **$86,000** | **$228,000** | **$202,000** | **$177,000** |
| **Post-Tax Income** | **$214,000** | **$372,000** | **$348,000** | **$323,000** |
| **Pre-Tax Spending** | | | | |
| Health & Dental Ins. | $5,000 | $5,000 | $5,000 | $5,000 |
| **Pre-Tax Investments** | | | | |
| HSA investment | $0 | $5,000 | $5,000 | $5,000 |
| 401(k) | $4,000 | $18,000 | $18,000 | $18,000 |
| 457(b) | $0 | $18,000 | $18,000 | $18,000 |
| | **$4,000** | **$41,000** | **$41,000** | **$41,000** |
| **Take-Home Pay** | **$205,000** | **$326,000** | **$302,000** | **$277,000** |
| **Post-tax investments** | | | | |
| 529 Education Funds | $5,000 | $15,000 | $15,000 | $15,000 |
| Roth IRA (backdoor) | $0 | $11,000 | $11,000 | $11,000 |
| Taxable Investment | $0 | $100,000 | $76,000 | $51,000 |
| | **$5,000** | **$126,000** | **$102,000** | **$77,000** |
| | | | | |
| **Annual Spending** | **$200,000** | **$200,000** | **$200,000** | **$200,000** |
| **Saving % Calculation** | | | | |
| All contributions* | $20,000 | $152,000 | $128,000 | $103,000 |
| Monthly Contribution | $1,667 | $12,667 | $10,667 | $8,583 |
| Max Possible Contribution | $225,000 | $367,000 | $343,000 | $318,000 |
| **Savings Rate (Net)** | **8.9%** | **41.4%** | **37.3%** | **32.4%** |
| **Savings Rate (Gross)** | **6.3%** | **25.3%** | **23.3%** | **20.6%** |
| **Required Nest Egg for FI** | **$5,000,000** | **$5,000,000** | **$5,000,000** | **$5,000,000** |
| Years to Goal at 2% Real | **89.7** | **25.3** | **28.9** | **33.9** |
| Years to Goal at 4% Real | **60.0** | **21.0** | **23.6** | **27.0** |
| Years to Goal at 6% Real | **46.3** | **18.2** | **20.2** | **22.8** |

A **$50,000 pay cut** results in $24,000 less in take-home pay. This is a reality for a high-income professional in a high tax state, with a **total marginal tax rate exceeding 50%**. He'd be better off financially moving to a no-income-tax state, but we'll assume that option's off the table.

Devoting $24,000 less to the taxable brokerage account lowers his savings rate and increases his time to financial independence by **two to three years**.

A **bigger pay cut of $100,000** means he is taking home $49,000 less. [note: these are rough estimates, but not unrealistic]. A lower salary along with the same $200,000 a year budget means Dr. E can expect to work **an extra 4.6 to 8.6 years** with returns in the range of 2% to 6% real. In the best of these pay cut scenarios, he is still looking at at least 20 more years to reach his goal.

What else can he do? Well, he could do the obvious. Cut spending like Dr. D did in a previous example of lifestyle deflation. With this income, we don't need to make *drastic* changes (Dr. D cut 40% from the budget), but we can see what happens when Dr. E reduces the budget by 10% and 20% rather than cutting his hours.

## What if Dr. E Spent Less?

Once again, we'll use **the calculator** to see the results from a reduced budget of $180,000 and $160,000.

| Dr. D vs. Dr. E | Dr. D | Dr. E | Dr. E $180K | Dr. E $160K |
|---|---|---|---|---|
| **Salary** | **$300,000** | **$600,000** | **$600,000** | **$600,000** |
| **Match & Profit Sharing** | **$16,000** | | | |
| **Compensation** | **$316,000** | **$600,000** | **$600,000** | **$600,000** |
| **Income Taxes Paid** | | | | |
| Federal Income Tax | $63,000 | $150,000 | $150,000 | $150,000 |
| State Income Tax | $11,000 | $42,000 | $42,000 | $42,000 |
| FICA | $12,000 | $36,000 | $36,000 | $36,000 |
| | **$86,000** | **$228,000** | **$228,000** | **$228,000** |
| **Post-Tax Income** | **$214,000** | **$372,000** | **$372,000** | **$372,000** |
| **Pre-Tax Spending** | | | | |
| Health & Dental Ins. | $5,000 | $5,000 | $5,000 | $5,000 |
| **Pre-Tax Investments** | | | | |
| HSA investment | $0 | $5,000 | $5,000 | $5,000 |
| 401(k) | $4,000 | $18,000 | $18,000 | $18,000 |
| 457(b) | $0 | $18,000 | $18,000 | $18,000 |
| | **$4,000** | **$41,000** | **$41,000** | **$41,000** |
| **Take-Home Pay** | **$205,000** | **$326,000** | **$326,000** | **$326,000** |
| **Post-tax investments** | | | | |
| 529 Education Funds | $5,000 | $15,000 | $15,000 | $15,000 |
| Roth IRA (backdoor) | $0 | $11,000 | $11,000 | $11,000 |
| Taxable Investment | $0 | $100,000 | $120,000 | $140,000 |
| | **$5,000** | **$126,000** | **$146,000** | **$166,000** |
| | | | | |
| **Annual Spending** | **$200,000** | **$200,000** | **$180,000** | **$160,000** |
| **Saving % Calculation** | | | | |
| All contributions* | $20,000 | $152,000 | $172,000 | $192,000 |
| Monthly Contribution | $1,667 | $12,667 | $14,333 | $16,000 |
| Max Possible Contribution | $225,000 | $367,000 | $367,000 | $367,000 |
| **Savings Rate (Net)** | **8.9%** | **41.4%** | **46.9%** | **52.3%** |
| **Savings Rate (Gross)** | **6.3%** | **25.3%** | **28.7%** | **32.0%** |
| **Required Nest Egg for FI** | **$5,000,000** | **$5,000,000** | **$4,500,000** | **$4,000,000** |
| Years to Goal at 2% Real | **89.7** | **25.3** | **21.1** | **17.4** |
| Years to Goal at 4% Real | **60.0** | **21.0** | **17.9** | **15.2** |
| Years to Goal at 6% Real | **46.3** | **18.2** | **15.8** | **13.6** |

Now, we benefit from the synergy of not only putting away more money each year, but also having a lower target for financial independence. To maintain the new lifestyle requires less money.

The target number in today's dollars with a $180,000 budget is down a half million to $4.5 million. By saving $172,000 a year, the new goal is reached in 16 to 21 years. Lowering the budget by 20% to $160,000 a year results in financial independence, defined as 25 years' in expenses, in 14 to 17 years. Dr. E could be free by age 50 if all goes well!


**But…** this assumes Dr. E continues to earn $600,000 a year. While there may be some pay increases to offset the reduced hours he'd like to implement, he can't count on that. How would the numbers pan out if we *combined* lower spending with a decreased salary?

## What if Dr. E Reduced Both Spending and Salary?

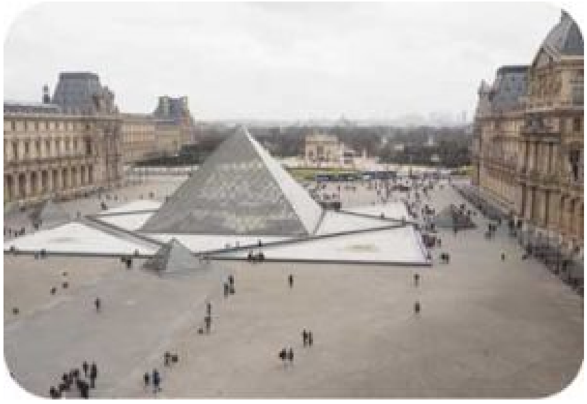
Now, we'll get the synergy of a lower target, still rather high salary, and the lifestyle benefit of working less. Forget synergy. Trinergy?

For this exercise, we'll look at a salary of $550,000 while spending 10% less and a salary of $500,000 while spending 20% less. Any bets on which one wins?

| Dr. D vs. Dr. E | Dr. D | Dr. E | Dr. E $550K | Dr. E $500K |
|---|---|---|---|---|
| **Salary** | **$300,000** | **$600,000** | **$550,000** | **$500,000** |
| **Match & Profit Sharing** | **$16,000** | | | |
| **Compensation** | **$316,000** | **$600,000** | **$550,000** | **$500,000** |
| **Income Taxes Paid** | | | | |
| Federal Income Tax | $63,000 | $150,000 | $130,000 | $110,000 |
| State Income Tax | $11,000 | $42,000 | $38,000 | $35,000 |
| FICA | $12,000 | $36,000 | $34,000 | $32,000 |
| | **$86,000** | **$228,000** | **$202,000** | **$177,000** |
| **Post-Tax Income** | **$214,000** | **$372,000** | **$348,000** | **$323,000** |
| **Pre-Tax Spending** | | | | |
| Health & Dental Ins. | $5,000 | $5,000 | $5,000 | $5,000 |
| **Pre-Tax Investments** | | | | |
| HSA investment | $0 | $5,000 | $5,000 | $5,000 |
| 401(k) | $4,000 | $18,000 | $18,000 | $18,000 |
| 457(b) | $0 | $18,000 | $18,000 | $18,000 |
| | **$4,000** | **$41,000** | **$41,000** | **$41,000** |
| **Take-Home Pay** | **$205,000** | **$326,000** | **$302,000** | **$277,000** |
| **Post-tax investments** | | | | |
| 529 Education Funds | $5,000 | $15,000 | $15,000 | $15,000 |
| Roth IRA (backdoor) | $0 | $11,000 | $11,000 | $11,000 |
| Taxable Investment | $0 | $100,000 | $96,000 | $91,000 |
| | **$5,000** | **$126,000** | **$122,000** | **$117,000** |
| | | | | |
| **Annual Spending** | **$200,000** | **$200,000** | **$180,000** | **$160,000** |
| **Saving % Calculation** | | | | |
| All contributions* | $20,000 | $152,000 | $148,000 | $143,000 |
| Monthly Contribution | $1,667 | $12,667 | $12,333 | $11,917 |
| Max Possible Contribution | $225,000 | $367,000 | $343,000 | $318,000 |
| **Savings Rate (Net)** | **8.9%** | **41.4%** | **43.1%** | **45.0%** |
| **Savings Rate (Gross)** | **6.3%** | **25.3%** | **26.9%** | **28.6%** |
| **Required Nest Egg for FI** | **$5,000,000** | **$5,000,000** | **$4,500,000** | **$4,000,000** |
| Years to Goal at 2% Real | **89.7** | **25.3** | **23.7** | **22.2** |
| Years to Goal at 4% Real | **60.0** | **21.0** | **19.9** | **18.8** |
| Years to Goal at 6% Real | **46.3** | **18.2** | **17.3** | **16.4** |

In this variation, we see that the reduction in spending has a greater effect than the reduction in salary. This is not so surprising. Dr. E has to earn a little more than two dollars to have an extra dollar to spend. Every $10,000 he and his family doesn't spend is more than $20,000 he doesn't have to earn.

His odds of being financially independent at 55 are indeed better when his salary is reduced by $100,000 with a concomitant $20,000 reduction in annual spending. Isn't that remarkable?



Paris- the most visited city in the world, and for good reason.

## Caveats to the Equation

To compare apples to apples, in this exercise, we simply assume that current annual spending equals future annual spending. In reality, Dr. E can likely expect the annual output to go drop significantly sometime around the targeted FI date.

Eventually, his kids will be independent. Not financially independent, but no longer completely dependent on mom and pop. Work-related expenses will disappear. The mortgage will be paid off – Dr. E currently puts $54,000 a year towards his. Term life and disability insurance will no longer be necessary.

It's safest to plan as though at least some of these things won't happen; after all, certain expenses will be swapped for increased travel and expenses related to newfound free time, but it's also smart to recognize that some of the budget line items have a shelf life.

If Dr. E reaches financial independence based on his current spending, then finds that his retirement spending is significantly less, he not only has financial independence but also **financial freedom**.

It’s tough to argue with that outcome.

***What would you do if you were Dr. E? Find a way to spend less? Work less? Both? Would you look for a way to earn even more? Give Dr. E your advice in the comments below.***