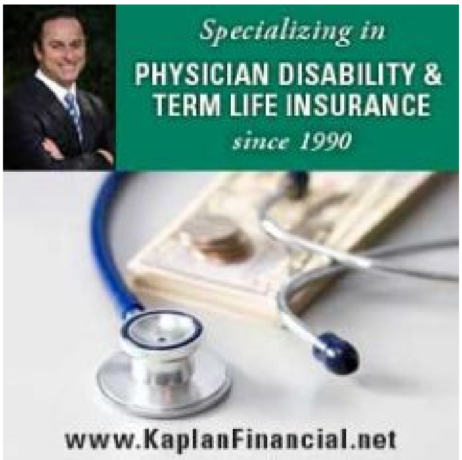
Five Steps to Start Saving for Retirement

[Editor's Note: Sorry about all the promotion this week. We usually don't do nearly as much as you have seen in the last week. Not only did we have a sale on our [online course](#) last week, but WCICON20 registration opened last night and was a smashing (and incredibly humbling) success. 221 people signed up in the first 7 minutes and by the time I'm going to bed 4 hours later, 523 people have already signed up, leaving just 137 slots (although we'll likely take a couple dozen off the waiting list.) In fact, it may be full by the time you read this, but if not, here's the [registration link](#). (Katie says we still need someone from WY, WV, and DE.) I wanted to express personal appreciation to each of you who signed up. It can be terrifying to throw a big party and not know if anyone is going to show, especially when you're already on the hook for hundreds of thousands of dollars of party expenses, but you've all turned one of my most anxiety-filled days in a long time into a great evening.

The other big promotion going on this last week is the new online course from Passive Income MD called [Passive Income By Investing in Syndications](#). Unfortunately, registration for that course is also going to end today- you must sign-up by midnight Pacific time or you won't be enrolled in the current class. If syndicated real estate investments are something you're interested in, this is a great way to get some rapid education on the topic. If you register through this link, I'll send you a signed copy of my new [Financial Boot Camp Book](#). At any rate, there'll be a lot less promotion the rest of the summer. Now on to today's classic post.

*This **Tuesday Classic** was originally published as one of my regular columns at [MDMag.com](#) and is aimed at beginning investors. I run into docs in this situation all the time in* *real life, in online [forums](), by email, and in the comments section of the blog. This piece is for you! If you've just recently become excited and motivated to take control of your finances or investments, or are just coming out of training, enjoy! Those of us who have been managing our own portfolios for years sometimes forget just how overwhelming and complicated it can seem in the beginning. If you are an investor who has recently been inspired to start saving for retirement, here are five steps you should follow to get started off on the right foot.]*



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5 Steps to Start Saving for Retirement

1. Decide Whether or Not to be Your Own Investment Manager

There are good arguments to be made both for and against [hiring a professional investment manager](). The best argument for doing it yourself comes down to the effect of saving the [advisory fees]() on the growth of your portfolio over the long-term. For example, a physician who invests a set amount per year into a portfolio that earns 8% a year before fees for 30 years while paying an advisor 1.5% of the portfolio each year as a management fee will end up with 25% less money than if he had managed the portfolio himself. That effect continues throughout the retirement years allowing the do-it-yourselfer to spend 113% more (over twice as much) per year in retirement than the investor using the 1.5% per year advisor.

The best argument for hiring a competent, low-cost advisor is that most individual investors do not have the knowledge or temperament to be a competent investment manager. Selling out in the depths of a bear market just once late in your career may cost you more money than you ever would have paid an advisor for a lifetime of advice.

This is also not necessarily an either/or proposition. You can hire an advisor to help you and teach you for the first few years until you feel you can do it on your own. You can even periodically check in with an advisor charging an hourly rate to make sure you are still doing okay on your own.

Both options are reasonable, but if you choose to be your own investment manager, realize that you will need to spend a fair amount of time, especially in the beginning, reading some high-quality books to learn how to invest properly.

2. Carve Out a Significant Portion of Your Income to Invest

You cannot invest money you have not yet saved. Not only do you have to live within your means, but you must live well below your means. I recommend most physicians save 20% of their gross income for retirement. If you can't do that, do the best you can and increase it each year until you get into that neighborhood. Fifteen percent might be enough if you start early, invest wisely, and work long enough, but 5% certainly is not.

3. Figure Out Which Retirement Accounts You Will Use

Retirement accounts will help you to save taxes, grow your money faster, protect your assets from creditors, and plan your estate. Chances are if you will simply maximize your contributions to available accounts throughout your career that you will have sufficient money to live off of in retirement. However, you will need to learn which accounts are available to you, how they work, and any special rules that apply to funds placed into each account.

The first place to look is to evaluate the options offered by your employer. Many physician employees have access to accounts such as 401(k)s, 403(b)s, 457(b)s, 401(a)s, and cash balance/defined benefit plans. Each account has different rules and investment options. Your employer is required by law to provide you a document describing each plan. Ask for it. Then read it. Pay particular attention to the fees and how you can best minimize them and maximize any "match" your employer may provide. Not earning the match is the equivalent of leaving part of your salary on the table.

Self-employed physicians get to choose their own retirement plans. The typical best choice for a physician without employees is an individual 401(k), but some doctors use SEP-IRAs, SIMPLE IRAs, and even personal defined benefit plans for various reasons.

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Most physicians, whether employed or self-employed, should also be using a personal and spousal backdoor Roth IRA and if insured under a high deductible health plan, a health savings account, which can be used as an extra retirement account. If you wish to save more money for retirement than you are allowed to place into retirement accounts, you can always make up the difference by purchasing investments in a taxable account.

4. Choose a Reasonable Asset Allocation

Once you have determined the types of accounts you will use, you will need to select the investments to use inside the accounts.

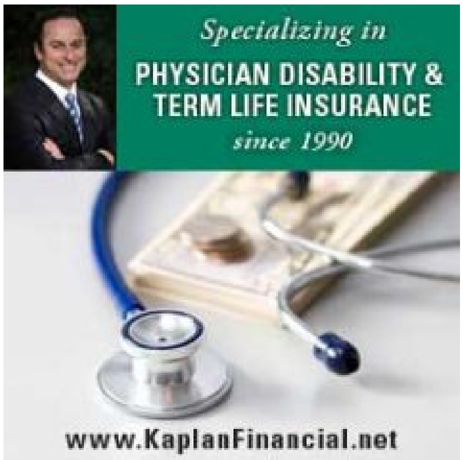
In an employer provided account, study the plan document looking for mutual funds with low expense ratios (< 0.30% per year). Most 401(k)s will provide a lower-cost S&P 500 Index fund or perhaps even a lifecycle fund. Lifecycle funds are a diversified fund of funds that becomes less aggressive as you approach your selected retirement date. In IRAs and other types of accounts where the investments are essentially unlimited, choose either a reasonable mix of broadly diversified index funds on your own or through a balanced fund of funds. One of my favorite "default portfolios" is the Vanguard Lifestrategy Moderate Growth Fund. This fund essentially buys all the stocks and bonds in the world in a ratio of 60% stocks to 40% bonds, all at a cost of 0.16% per year.

As you do more reading and self-educating, you may wish to move into a more complex portfolio. However the types of simple, low-cost portfolios discussed above are perfectly adequate for your needs early on or even throughout your career. Besides, early in your investment career what really matters is your savings rate, not your investment return.

5. Develop a Written Investing Policy Statement and Stay the Course

Once you have developed a reasonable investment plan, the most important determinant of your success is your ability to follow your plan through thick and thin. The best way to do this is to actually write down your plan and refer to it from time to time.

Write down which types of investment accounts you will use, and the mix of investments you will place into them. Write down how much you plan to save each year. It is even better if you write down specific, achievable investment goals. Write down what you plan to do in bear markets and in bull markets. (Hint: You should continue to follow your plan.) Realize that you will, by necessity, pass through a handful of bear markets during your investment career. You know they are coming, you just don't know when. Having a written plan will make it much easier for you to stay the course with your plan, a necessary step if you hope to reach your goals.



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Your plan may change slightly from time to time, which is fine, especially in the first year or two while you are still doing the lion's share of your self-education. But within a few years, plan changes should be minor and infrequent.

Starting your investing career as early as possible will pay huge dividends. Following these 5 steps will help any rookie retirement investor get started down the path to retirement security.

Did I miss anything? What else would you tell someone who's just beginning this investing journey? Comment below!