I Forgot to Save For Retirement Part 2

This is part 2 of this post. In part 1 I introduced the topic and gave the first three suggestions for those who have undersaved and are nearing retirement with not nearly enough money to support their desired lifestyle. In this post, I continue with solutions # 4-13.

Solution # 4 Move!

This one seems dramatic, of course, but can be very beneficial, despite the cost of moving, especially if you're moving to a community you'll stay in after retirement anyway. You can move to a community with a lower cost of living. You can move to an income tax-free state that allows you to save what you were previously paying in taxes. You might also be able to move to another area of the country with higher reimbursement. Most physicians have realized that cost of living has very little correlation with physician pay. Selling a half-paid-for $2 Million dollar home in California and buying the same home in Texas for $300,000 cash gives you $700,000 to add to the retirement portfolio and eliminates that massive monthly payment. Insurance and tax costs may also decrease significantly.

Moving also allows you to change your lifestyle and social group with much less pain. You don't have to explain to the guys why you're no longer in the country club or why you're selling the boat. It's obvious- you're moving. Then, at the new location, you can buy a smaller home in a less expensive neighborhood and avoid making friends with the Jones.

Solution # 5 Work Longer

This solution may sound just as unattractive as moving, but it is so beneficial that it is the main solution that most undersavers utilize. It is helpful for six reasons. First, you earn more lifetime income. Second, you don't need your nest egg to provide for as many years. Third, you can delay taking Social Security, allowing for greater payments later. Fourth, you can delay purchasing a SPIA, getting a higher rate when you do so. Fifth, and perhaps most importantly, delaying retirement gives your nest egg more time to compound and perhaps even recover from a recent bear market. Lastly, if you're working longer, you can be more aggressive with your investments, hopefully producing a higher return.

Solution # 6 Work Part-Time

This is really just a toned down version of working longer. Physicians of many specialties and similar professionals can often decrease how much they work. They may be able to support their lifestyle on just 5-10 days of work a month, especially given the reduced tax burden. While they might not be able to do that and still make big retirement contributions, they do get the other five benefits of working longer while still having time to enjoy retirement activities and travel. Sometimes, it can be tough anyway for a doctor to stop doctoring and going part-time is a good compromise.

Solution # 7 Get a Real Investing Plan

If you do not already have a finely-tuned investing plan, I would suggest you do so, either on your own or with the help of a competent, fairly-priced advisor. Many doctors are investment collectors and have no investing plan. Others have terrible returns due to market-timing or stock-picking schemes. They may be invested in high-expense mutual funds. They may also not be taking an adequate amount of risk. There is nothing quite like understanding your shortfall risk to encourage you to take an appropriate amount of market risk.

Solution # 8 Fire Your Advisor

Obviously, if you have an incompetent or overly expensive advisor you should fire him. However, even firing a competent, low-cost advisor does save you some investing expenses that can be redirected toward portfolio growth. Those expenses get larger every year if you're paying via an Assets Under Management (AUM) fee. Now, I'm hesitant to recommend this approach to someone who is behind on their savings. If they were really the competent do-it-yourself type, they probably wouldn't be in this situation. Nevertheless, there is no reason you cannot learn to do your own financial planning and investing in your 50s just as easily as in your 30s. But remember, it does not help you to avoid advisory fees you were paying a competent advisor unless you actually perform the tasks your advisor was previously doing. Selling low in one bear market late in your career is a financial catastrophe from which there may be no recovery. If the advisor can prevent you from doing that, he is well worth the fees you are paying.

Solution # 9 Eliminate Economic Outpatient Care

Standard financial advice is a lot like that safety speech the flight attendants give before the plane takes off. If the oxygen mask drops, put yours on first, then help your kid. In the same way, you need to take care of your retirement first before worrying about your kids. That might mean they have to take out more loans for college. It might also mean cutting them off if your income is supporting them post-college. You can’t afford to help them with a downpayment on their home, cover their medical bills, or pay off their credit cards.

Solution # 10 Give Less to Charity

Physicians are well-known for their charitable inclinations. But just like helping your kids out, you’ve got to take care of yourself first. Besides, in retirement you can switch from supporting charities with money to supporting them with your time.

Threading the “Pearly Gates” just before dawn on Mt. Hood.

Solution # 11 Get Lucky

The safe withdrawal rate is generally considered to be in the 4% rate. However, if you look at what is usually okay, it’s possible to get away with withdrawing 5-6% a year. A $1 Million portfolio may only be the equivalent of a $40,000 per year of income, but if you hit a reasonably good period of returns early in retirement, you may be able to get away with

$60,000 per year. This good period of returns is far more likely if you had relatively poor market returns the last few years of your working career. For example, someone who retired in early 2009 would have a much smaller amount of money than someone who retired in early 2008. However, the guy who retired in 2009 who would have enjoyed a much better average return his first 3 years of retirement than the guy who retired in 2008.

Solution # 12 Rob your Heirs

Many people wish to "leave a legacy" to their heirs. However, that money can be used to support your retirement lifestyle instead. There are two ways you can do this. First, if you have cash value life insurance, you can exchange it to a SPIA instead of leaving it for the death benefit. You can also simply do a partial surrender (amount equal to premiums paid comes out first tax-free) and then borrow most of the rest tax-free (but not interest-free.) Even if you don't have life insurance, you can use a large chunk of your nest egg to purchase a SPIA. That money won't be available to heirs, but it will maximize your guaranteed retirement income, probably allowing you to spend more than 4% of it a year.

Solution # 13 Roll the Dice

This isn't the same as get lucky, in fact, it's an awful lot like getting unlucky, but the truth is that most people aren't going to enjoy a 30 year retirement. The life expectancy for the average 65 year old male is 19 years. That means half of those guys are going to have a life expectancy less than that. Only a small percentage of them will actually live the 30 years the safe withdrawal studies are based on.

Each of these 13 solutions, if implemented, are likely to reduce the size of the retirement cliff. Those who find they have undersaved for retirement should not necessarily feel guilty, as they are actually quite normal. Most Americans have trivial retirement savings and live mostly off of social security. However, if they wish to avoid a huge retirement cliff, they need to become a bit abnormal, implement several of these solutions, and boost that nest egg prior to retirement.

What do you think? Are you or anyone you know in this situation? What have you/they chosen to do about it? Comment below!