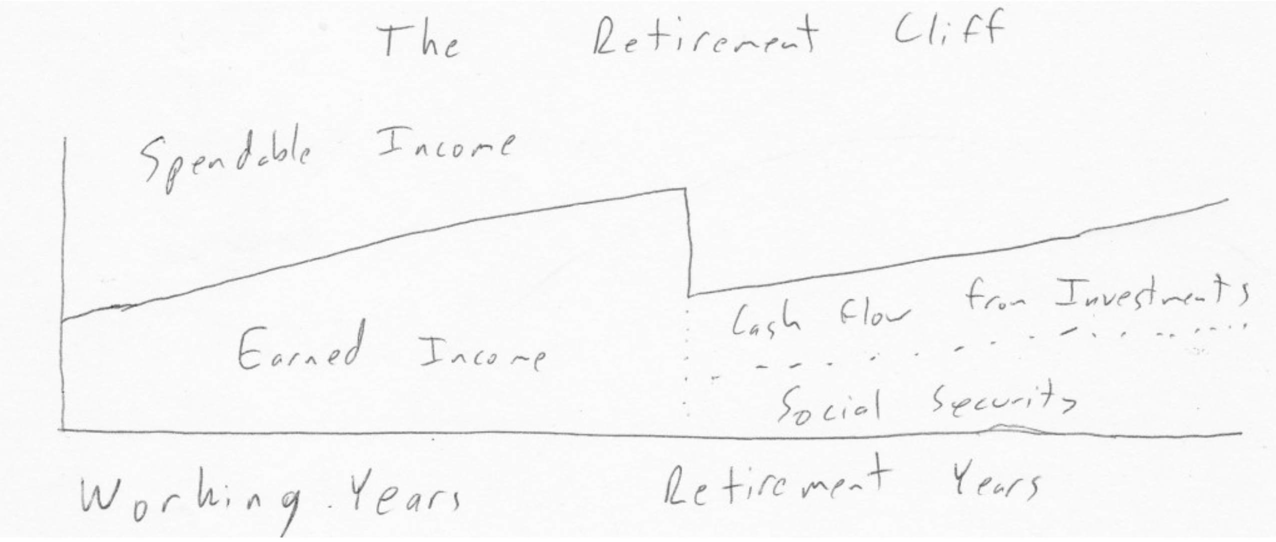
# I Forgot to Save For Retirement!


This is the first of a two part series dealing with the high earner who finds himself just a few years away from retirement with not nearly enough money to have the retirement he would like. This could be for many reasons. It could involve a late entry into medicine, a costly personal or professional divorce, making poor investment choices, having your money grow too slowly due to an incompetent or overly costly advisor, poor savings habits, an unrealistic view of what retirement should be, or more commonly, simply living too high on the hog for too much of your career. Essentially, many of these folks put off saving for a rainy day until the storm clouds appeared on the horizon. It isn't too late, but it's a much different situation from a doctor who gets his ducks in a row in his 30s.

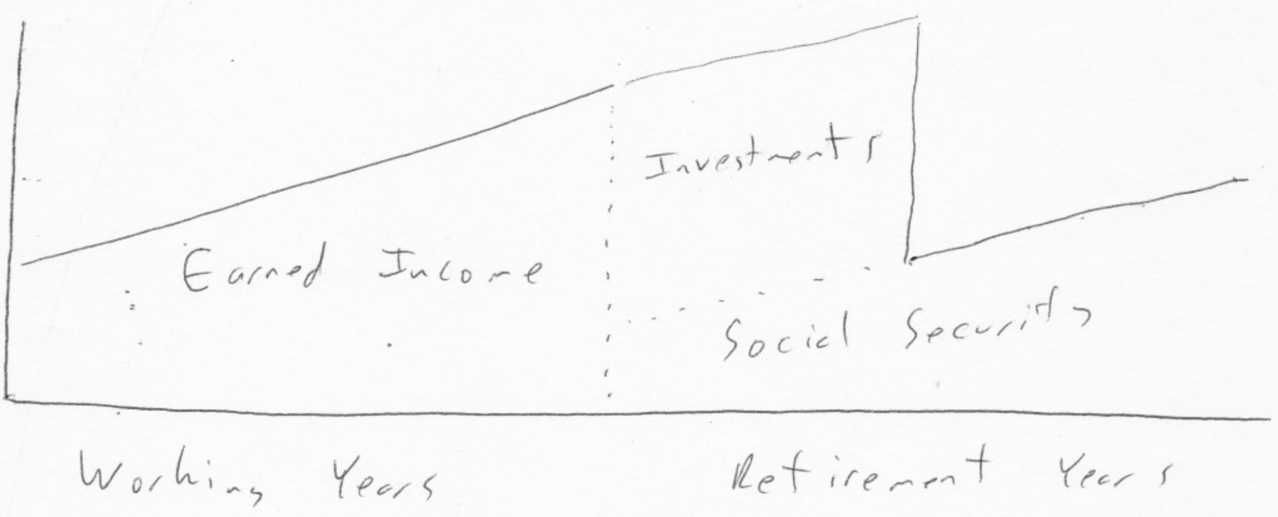
**The Retirement Cliff**

A concept I really like, which I first saw expounded in Jim Hemphill and David Burd's soon to be published volume Changing Outcomes, is this idea of a cliff at retirement. This is the difference between spendable income during the earning years, and sustainable spending income in the retirement years. I've hand-drawn a copy of their concept below:




If you look closely at this drawing, you'll see that during your working years your income gradually goes up with inflation/raises (I know, I know, that isn't what it looks like for many doctors.) Then, at some point, you retire and go off the cliff to the point where you start living on cash flow from your investments and Social Security. The goal of good financial planning and investing, of course, is to minimize the size of that cliff. As a strong saver who started as a resident, my goal is for there to be no cliff at all. I don't want my lifestyle to change when I finish working. In fact, at least early in retirement, some people may even want to spend more as they now have more time for travel and hobbies.

However, those who arrive at retirement age with inadequate savings, for whatever reason, are faced with a choice. They can have a cliff that looks like the one above, with a small drop-off right at retirement, or they can have one that looks like this:

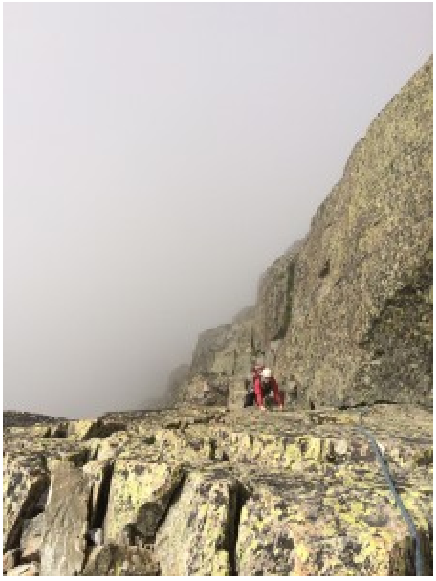



In this example, the retiree maintains his spending for a few years in retirement, but then runs out of investments and is forced to live on Social Security alone, a dramatic decrease in lifestyle from that enjoyed during his working years. Obviously, this is a scenario that most of us would like to avoid.

**Retired and in Trouble?**



If you have found this post at or after your retirement, or if your retirement was forced due to job loss or health issues, and your personal graph is starting to look an awful lot like that second one, the sooner you cut your lifestyle to a sustainable level, the better off you will eventually be. There is not a lot you can do at that point. It might be possible to go back to work, at least part-time, and perhaps not even in your original career field. But we'll assume that isn't an option. So cutting back your lifestyle right away is the most important factor, such as downsizing your home, moving to a less expensive or income tax-free state or country, or simply going on fewer trips. You might be able to trim a bit around the edges with some other factors, such as converting some of your non-income producing assets (second car, second home, boat, airplane) into income producing assets (rental properties, stocks/bonds.) You can also take a lump sum and annuitize it with a Single Premium Immediate Annuity (SPIA) to maximize your guaranteed income from it, at the expense of losing the lump sum for later spending, gifting, or inheriting. You might also simply adjust your view of what you were planning to leave to your heirs or charity.



I like cliffs, but not retirement cliffs!

**The Pre-Retiree in Trouble**

However, this series is primarily aimed at the person who, although clearly behind, still has a few years to make some adjustments. In that case, it is important to consider the reason why you’re behind where you need to be. If you’re behind in your savings because of a late entry into your professional field or because you lost half your assets in a divorce, you may not need to make huge lifestyle adjustments compared to someone who has simply had too low of a savings rate for far too long. If you’ve been saving enough, but your money hasn’t been doing its share of the work due to low returns or high investment-related expenses, an adjustment in investing strategy is certainly part of the solution.

Most of the pre-retirees in trouble are going to have to make some hard decisions about their lifestyle which are going to require some serious motivation and discipline. The remainder of this post and the next one are a list of possible solutions. Some of these will give you more bang for your buck, depending on your personal situation. Most likely, you’ll need to use several of these to get to where you want to be. Even if it is impossible for you to eliminate the retirement cliff completely, the smaller you can make it the better.

**Solution # 1 Decrease Spending**

The first, and most obvious solution, is simply to reduce spending now. Just like early in your career, every dollar you don’t spend can be redirected into income-producing assets. For some doctors, that might mean budgeting for the first time in decades. Taking a serious look at where your money is actually going is the first step to any budget. If you’re spending it on vacations, remember that you can go on just as many vacations, they just have to be cheaper. There is a big difference between a week camping in the National Park a few hours away and a week in Paris. If you’re spending it on expensive cars, pay your car off and keep it for at least a decade. If you’re spending it on interest payments, pay off the credit cards, car payments, and home equity loans. If you have expensive hobbies like boating, flying, or antique cars, consider swapping them out for running, reading, other other inexpensive hobbies you enjoy just as much or nearly as much.

**Solution # 2 Use Your Tax Money To Increase Savings**

If you’re getting close to retirement and finding yourself with inadequate savings, there’s a good chance you never installed the habit of maxing out all possible tax-advantaged accounts. By maxing out your 401(k), 403(b), 457, profit-sharing plan, defined benefit plan, and HSA, you may be able to reduce your tax bill significantly. Those tax savings go straight into your nest egg. Pre-tax retirement savings accounts are even more beneficial for a retiree expecting a large retirement cliff, since his post-retirement tax bracket will likely be dramatically lower than his pre-retirement bracket. To make things even easier, as you get close to retirement those tax-advantaged accounts allow for “catch-up” contributions (extra $5500 for 401(k)s starting at age 50, extra $1000 for IRAs at age 50, and an extra $1000 for HSAs at age 55.)

**Solution # 3 Turn Non-Income Producing Assets into Income Producing Assets**



Most docs in their 50s, especially those with inadequate retirement savings, have some assets sitting around that are worth something. It might be an expensive boat, airplane, or automobile. This can be sold and the proceeds can be used to purchase stocks, bonds, or real estate. If you have a vacation property, you can start renting it out (or rent it out more often) so it at least covers its own expenses. You can rent out the mother-in-law apartment in the basement or the guest house. Selling an asset is especially useful for an asset that was sucking up a lot of your income previously. Not only do you get the cash out of it, but you can quit feeding it every month.

Ten more solutions to the retirement cliff issue will be presented in Part 2 next time. Until then, let’s hear your comments about these three. Are you in this situation or know someone in it? What are you (they) going to do about it? Comment below!