A Primary Doctor Approaches Retirement

My email box is an endless source of material for the blog and podcast. As always, details are changed to protect the innocent. Assume genders are swapped about half the time, specialties are changed, and identifying details are obscured. Today's Q&A provides a great discussion of some things to think about as you approach retirement. The situation discussed is VERY common among docs and is hardly the only time I've had a similar question. It seems particularly relevant given that I just spent the weekend with a new EMR. Nothing quite like a new EMR to make you feel like an intern all over again.

Q. How Do We Handle Money in Retirement?

My husband is a primary doctor with very little interest in managing accounts. He spends a lot of time with patients. He is terribly overworked with his new electronic medical record. I try to be frugal- we drive an 18-year-old car, seldom go shopping, and live in a small home. He may retire in his mid-60s this year. I must get a handle on finances. I am frightened. Yes, I should get a financial advisor for us. (We interviewed two, but they were not right for us.) Could you ask for guest posts or columns for specific examples of how retired people take money out of their accounts and budget how much in dividends from where? When and what security to sell? That would help many people. For another column, I think long-term care insurance is important for those in lower earning specialties. My husband made it possible for me to stay at home to raise children and care for other family members, which were our priorities. However, I wish we had a better grip on exactly how we will handle money in retirement.

A.

This email is a good example of why I feel so passionately about writing this blog, even when I feel bogged down sometimes with the time requirements of administering the WCI Empire. There are a few issues worth unpacking here for all of us.

Take Control of Your Finances Now

First, start early. This couple wants to retire in a few months. Many of the wonderful things that a physician income, even a primary care physician income, can do for your finances go away upon retirement. Procrastination of your financial education has some very real consequences as you can tell by reading between the lines of this email. Chances are good that your career, your practice, your interests, and/or your health will change in ways you do not like before you hit the age where you thought you would retire. In this doc's case, it's the EMR requirement. In the case of others, it's a disability, the death of a spouse, or a lack of interest in practicing medicine. Physician net worth surveys show that about 1 out of 8 doctors in their 60s have a net worth of less than $500K. There really is no excuse for that. You do not want your spouse emailing me when you are in your 60s saying "I am frightened" and " I wish we had a better grip." You probably don't want to still be driving an 18-year-old car by the time you need your nest egg to hatch. This couple is starting to take control, and that's good. But there are plenty of physician families out there in all stages of their career who have not yet done so.

Financial Advisors Are Expensive, But Worth It For Many

Blog readers know I'm not the most pro-financial advisor blogger on the planet. I don't use one and a bad experience with one was really the straw that eventually led to the birth of The White Coat Investor. But I have also taken the time to learn how to be my own financial advisor. If you have not done that, an advisor is well worth the price. Financial advice is expensive stuff, but NOT getting advice can cost you even more. You can find advisors who will give you good advice at a fair price. I'll be honest- that recommendation list doesn't make us much money and is a major hassle to vet and maintain. The main reason we do it is to help people like this reader who honestly could use a financial advisor. The chances of this couple learning to be successful do-it-yourself investors in their 60s seem awfully low to me. If you are frightened, if you need a better grip, if you just need some reassurance that you're doing a good job, go see a competent advisor. This couple should keep looking for an advisor and in the meantime, learn as much as they can themselves. The fact that one of them is following this blog is an extremely good sign.

Long-Term Care Is A Necessary Evil For Some

I've written before about [long-term care insurance](). I'm not a big fan. Those with a small nest egg (including much of the middle class) should plan on spending down to Medicaid levels in the event of a significant long-term care event. Those who are single should plan on the same. Those who have a very large nest egg can self-insure against this risk. So who needs long-term care insurance? Married people with a moderately sized nest egg. What's a moderate nest egg? Maybe $200K-$1M. No hard and fast rule there, so if you're not inside that range and really want long-term care insurance, feel free to buy it. But I won't be buying it, just like I won't be carrying life and disability insurance my entire career. I suspect this doc and his wife probably do need long-term care insurance.

Take care of that nest egg!

How To Draw Down Assets

I've written a number of posts on spending and investing in retirement, including this five post series.

But here are some general rules to consider when drawing down assets:

Rule # 1 – Be Smart About Guaranteed Income

Some income is more guaranteed than others. Social Security has a very strong guarantee. A rental property has no guarantee. SPIAs and Pensions and CDs are somewhere in between. But the general idea is to subtract guaranteed income from your expenses to get an idea of what you need from your portfolio. The less guaranteed it is, the more likely it should go into the nest egg column instead of the guaranteed income column.

Rule # 2 – You Can Only Take Out About 4% a Year Of Your Nest Egg

If what you need/want from your portfolio each year is less than 3-5% of your portfolio, congratulations! You've probably got enough money to have the retirement of your dreams. If that number is higher than that, you're going to have to make some changes. One change that may help is using more of the portfolio to generate guaranteed income. This generally means buying a SPIA- a Single Premium Immediate Annuity. While you may only be able to take out 4% of your portfolio to spend, if you buy a SPIA, you might be able to spend 6-8% or more depending on your age. In exchange for that, you lose the ability to leave unused assets to heirs, and you probably lose some inflation protection as well.

Rule # 3 Withdraw Money That Has To Be Taxed Anyway First

There are some requirements in the tax code. The taxes must be paid this year on real estate rents and mutual fund dividends and capital gains generated in a taxable account. Since it is taxed anyway, you might as well spend it in preference to selling assets or withdrawing from an IRA. Likewise, once you hit age 70, you have to start taking Required Minimum Distributions (RMDs) out of tax-deferred accounts. Since you have to take the money out of the account and pay taxes on it anyway, you might as well spend it in preference to selling assets or withdrawing from a Roth IRA.

Rule # 4 Taxable Assets First

As a general rule, you want to spend taxable assets before tax-protected ones because maximizing your tax-protected space leads to more money overall. But when spending those taxable assets, consider a couple of things first. First, spend assets you don't really want. You know, those legacy assets that you wish you hadn't bought in the first place. Maybe some individual stocks or high expense ratio mutual funds or whatever. Might as well take this opportunity to flush those out of your portfolio. Then, sell the high basis investments (the ones you paid the most for) because it will cost you much less in taxes. Ideally, you can leave those really low basis investments for your heirs to enjoy the step-up in basis at your death.

Rule # 5 There Are Many Roads to Dublin

There is plenty more to learn about how to spend your nest egg. You can do Roth conversions before Social Security kicks in and there are lots of little tricks to reduce your tax bill by judiciously utilizing a combination of selling low basis shares in taxable, HSA withdrawals, tax-free withdrawals, tax-deferred withdrawals, and borrowing against assets like cash value life insurance and your house. That's all beyond the scope of this post, but well worth either learning this stuff yourself or hiring someone who is familiar with the nuances.

What do you think? What advice would you give to a doc approaching retirement and just getting started learning about finances? Comment below!