Super Saving For An Early Retirement

[Editor’s Note: This is a guest post submitted by a physician and a regular reader. He wishes to remain anonymous. We have no financial relationship. It illustrates how a reasonably high salary and a high savings rate can do more than just about everything else, especially when it comes to retiring early. This reader has a net worth at least twice mine after coming out of residency at the same time. He didn’t include any pictures (he wanted to stay anonymous, remember) so I threw some of my own in!]

My wife and I, both physicians in our early 40s, have been in practice for about nine years. Like many doctors, we have days that remind us why our profession can be so rewarding. Unfortunately, those days are being whittled down to moments, while the headaches are inexorably overshadowing the good stuff. We think about retirement on an almost daily basis (I spend way too much time pouring over WCI’s archives). While not the healthiest mindset to maintain, it is our reality. So what are we doing about it (besides trying to focus on the positives and living for vacations)?
We Are “Super-Saving” For an Early Retirement.

Multi-Millionaire Doctors

I don’t know that there is a universally accepted definition of super-saving, but I think anything over 30% of gross income could qualify [Remember 20% is supposed to be “normal-saving” for doctors-ed], while over 40% is starting to get fairly aggressive. My wife and I invest approximately 50% of our gross income. Despite starting our investing lives in residency, about 15 years ago, with a tiny portfolio and a negative net worth (each with six-figure med school loans), we now have a portfolio worth $3.4 million.

It’s All About Savings Rate

So, what’s the purpose of this post? It’s certainly not to portray our portfolio as a shining example of something to duplicate. We’ve been very slow, over the years, to learn about things like expense ratios and what type of account in which to hold bonds. And all of our naivety is evident in our inelegantly constructed collection of investments. We’re not nearly as financially savvy as WCI (not even in the same universe, let alone league). We’re not even as knowledgeable as the majority of the readers who post comments on this blog. The purpose of this post is to demonstrate what a high savings rate can do in a relatively short period of time, even when you spend the first 3/4 of your investment life feeling your way around in the dark. My hope is to inspire those who read this blog and think: “There is no way I can replicate what WCI and his savvy minions (that sounds a bit evil; it’s unintentional) are doing to secure their retirements.” I’m telling you yes, you can do it. Asset allocation and all the other wisdom on these blog pages is extremely important, BUT splitting hairs on the funds in which you invest is often less
important than is your rate of saving.

Nine years ago, fresh out of fellowships, my wife and I earned a combined gross income in the low $400k’s. Over the years, that has climbed to a combined gross of almost $600k. I expect that we will fluctuate between the high $500k’s and low $600k’s for the rest of our careers. As I type this and look at the numbers on the screen, it sounds like a LOT of money. But, interestingly, we don’t feel “rich.” I think that comes from years of living like medical students. We didn’t actually upgrade to “living like a resident” until several years after completion of our fellowships. Currently, I would say we have loosened the purse strings quite a bit, but only in comparison to the way we used to live— not when compared to some of our friends and colleagues. We love eating out at nice restaurants, and we travel with our daughter as often as we possibly can. I lease a pretty sweet car for $400/month because I decided that the peace of mind in not having to worry about expensive/ time-consuming repairs on an older/owned car was worth it to me. It’s no Tesla, but it’s well-appointed and it fit within the budget with which we were comfortable. The point is, we’re quite happy with our standard of living, so the 50% of our income that goes into our investments is never missed.

Our First Asset Allocation

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GO
So, enough preamble—on to the data. In 2004, after three years of residency and in our first year of fellowship, our portfolio looked like this (including our reasons for selecting the investments):

- **Cash** $107,000 (Not sure why so much.)
- **Taxable**
  - Individual Stocks $108,000 (Gift from grandfather at my birth)
  - VG S&P 500 Index $28,000 (The bedrock of the portfolio)
  - Am Century Ultra $6,000 (Recommended by a friend in finance, never performed)
  - Fidelity Electronics $6,000 (Recommended by father in law, never performed)
  - Oakmark Interntl $24,000 (ER much higher than similar index funds—oops)
  - VG Intm Tax-Ex Bnd $17,000 (Still like this one for bonds in taxable)
- **Roth IRA**
  - TRP Mid Cap $24,000 (Just smart enough to do Roths in residency)
  - Fidelity Mid Cap $6,000 (Not index, but Morningstar liked it)
  - Fidelity Div Intnl $7,000 (Again, Morningstar liked it)
- **Total Assets** $333,000

The only reason I have the above information is that 2004 was the year we started making an asset spreadsheet. This is an Excel file that we update once or twice yearly, usually at tax time. After reading a finance book and making our first spreadsheet, we set goals for asset allocation, realizing that we were WAY off. We had lots of cash but a hodgepodge of mutual funds in different classes. And so we learned to rebalance, which we now do every year (for us, always adding to classes in which we are deficient—not selling the ones where we are overloaded).
Getting Serious About Regular Investment Contributions

Toward the end of fellowship in 2006, we were holding 32% of our portfolio in cash, in anticipation of needing a down payment for the house we would buy after training. It wasn’t until late in 2007, one year into our “real doctor” jobs, that we finally adjusted our cash goal down to 5% and got serious about making regular investment contributions. We started transferring tens of thousands of dollars into our mutual funds (right before the market crashed, I believe). This is also when we got some discipline and set up monthly automatic transfers from our bank account to our investments: $4500/month, divided among three mutual funds in different classes. And, of course, we were maxing out our 401k’s.

We continued on in this fashion for several years, making automatic investments monthly. We had a baby and maxed out our state’s 529 fairly quickly (our state offers “credits” for purchase which, upon entry into college, will have a value equal to the cost of a four-year education at our state’s most expensive university). It took us quite some time to realize that one of two scenarios must be true: either our rate of investing was inadequate, as judged by the constant accumulation of cash in our bank account; or, our rate of spending was too low. Given that we were still comfortable living like residents (despite my wife complaining that her receptionist has a nicer purse than she does), we chose to increase our rate of investing.

Moving on...by 2011, we were investing $15,000 per month (on top of our 401k contributions), with 68% of it going to Vanguard 500 Index, 14% in Vanguard Small Cap Growth Index, 12% in Oakmark International, and 6% in Vanguard Intermediate-Term Tax-Exempt Bonds. Here is a snapshot of our portfolio in 2011:
Doing Some Financial Planning for Retirement

At this point, we started to think more actively about the issue of retirement. But, it was still more of an abstract concept as opposed to something tangible. We really had no concept of how much money we would need in retirement, or what age we could even shoot for to retire. We took advantage of a free program offered through work that paired us with a financial advisor. He prepared one of those 50-page documents with all kinds of graphs and charts, which was helpful. The takeaway point was that retirement in our mid-50’s was within reach. Naturally, our next question was, “If we can retire in our mid-50’s by investing an extra $15k per month, how much earlier can we push it by investing $20k per month?”

For the past four years, we have been automatically investing $20k per month into our taxable accounts. We rebalance the amount that goes into each fund once yearly to maintain our
asset allocation (47% large cap stock, 18% small/mid cap stock, 15% international stock, 15% bonds, 5% cash).

We continue to max our 401k’s, backdoor Roth IRAs, and stealth IRA’s (HSA’s) [hyperlink to WCI post]. We also put $1000-1500/month into the Utah Education Savings Plan— just in case our kid wants to go to Yale + med school.

Super Savers Portfolio on Parade

WCI trying to decide if he is really willing to rappel off a bag full of water

Here is our portfolio now, in 2015:

- Cash $35,000 (Finally learned to hold less cash)
- Taxable
  - Individual Stocks $71,000
  - VG S&P 500 Index $938,000
  - VG Sm Cap Gr Index $278,000
  - VG Extended Mkt Index $365,000
  - VG Emerging Mkt Index $83,000
  - Oakmark Interntl $291,000
  - VG Intermed Tax-Ex Bond $267,000
- Roth IRAs
  - VG Val Indx $26,000
  - Fdlty Captl Apprec $55,000
Investing on Margin (We Still Carry Student Loan and Home Mortgage Debt)

OK, so we’re good at saving. But if we’re thinking about retirement, what about our biggest recurring expenses? Have we adhered to WCI’s advice to get rid of the med school loans ASAP and not carry a mortgage into retirement? Um, not so much. We have $300k left on a mortgage (2.875%) that is scheduled to be paid off by 2025, two years after our planned retirement. We still have $200k of medical school loans (2.88%) that is scheduled to be paid off by 2033. We’re not thrilled about carrying these expenses into retirement, but we’re hoping that the return on our investments makes this a reasonable strategy.

When to Retire

As for when to pull the trigger on retirement: the more we read about this issue, the more overwhelming it becomes, as there are a zillion variables to consider. What we’ve found helpful is to have our portfolio analyzed by different methods and then see if we get similar opinions. We’ve taken advantage of the free financial advising consultations through work, and we’ve also had a couple of portfolio analyses followed by video conferences with the Vanguard CFPs (a free service offered to those with $1 million invested with
Vanguard). It has been reassuring to hear similar opinions from several different people regarding whether we are on track. I’ve also entered all of our data into Fidelity’s retirement calculator, a powerful tool that allows you to control all sorts of variables. As best as I can tell, retirement by 50 is almost a certainty, and we may even be able to wean down to part-time by 48.

WCI, Mr. Money Mustache, and my parents all say that you need to retire “to” something, not “from” something. I know they’re right, but that’s going to have to be the subject of another post. I’ve got to get back to work.

Sign me,

2023 or bust

[Editor’s Note: A few comments before readers post their thoughts in the comments section. I often talk about what living like a resident for 2-5 years after residency will do. This post gives you a chance to see what happens if you do that for even longer (i.e. you get rich a lot faster.) We all have a choice in this regard, and it’s important to find a balance that’s right for you and your family. This is a great demonstration that any reasonable investing plan is fine when combined with a good income and savings rate. Many physician families can’t recreate this sort of success due to having
much less income, but every physician family can live a lifestyle similar to these docs. If they’re making $600K, paying $150K or so in taxes, and putting $300K toward retirement, they’re only living on $150K. Their $3M+ portfolio is very close to supporting that lifestyle already. These guys would likely benefit from a little more coherent asset allocation/investing plan, but who am I to criticize? Certainly, their plan is reasonable, as is their moderate use of non-callable margin debt.

What do you think? Are you a super-saving doc? Do you know someone who is? Do you hate your job enough to save like this? Will you carry debt into early retirement? Comment below!