What Would it Take For You to Retire in 5 Years?

I recently had the opportunity to give a brief presentation to my partnership. Don’t worry, I didn’t charge them. One statement I made seems to have stuck with more people than any other. I had said something to the effect that I was on track for retirement in 5 years. This was apparently very surprising to a lot of them, especially since I’m the newest partner in the group. I had run some numbers a week or two before to see where we were really at, and figured that IF WE REALLY WANTED TO, we could retire in 5 years.

Those of you who have hung around this blog for a while won’t find this all that surprising. That’s because you know the equation. We use this equation all the time around here. There are five variables in it, and if you know four of them, you can always solve for the fifth. You know, that Future Value (FV) one (also repurposed as RATE, PV, PMT, and NPER in Excel.) There are five variables in this equation

1) How many years until you retire-number of periods (NPER)

2) The rate of return of your investments (RATE)

3) How much you have- Present Value (PV), always a negative number

4) How much you will save each year- the payment (PMT), always a negative number

5) How much you need to spend each year-divide by a reasonable
withdrawal rate such as 4% to get Future Value (FV)

Now let’s run an example. Let’s say a doctor wants to retire in 5 years. He has $750K and figures he can make 8% on his money. He’s a pretty frugal doc and his student loans and mortgage are gone. He figures he can live on $60K a year. $60K divided by 4% = $1.5M. If we solve for how much he has to save per year (PMT), we get $63K per year. Sound doable? Sure. Most docs who can live on $60K a year can probably put away $63K toward retirement each year for the next five years.

What if the doc needs $120K a year in income? Well, now he needs a nest egg of $3M. If he wants to retire in 5 years, he’s going to need to put away $300K a year for five years. That’s going to be a stretch for most docs, but even if he can put away $100K a year, he can be done in less than 10 years.

So, why are some doctors flabbergasted when I throw out a phrase like “I’m on track to retire in 5 years?” There are as many reasons as there are variables in the equation.

1) RATE too low

- Not taking an appropriate amount of risk
- Went to cash in 2008-2009 bear market
- Paying too much for investment advice
- In low-returning “investments” like whole life insurance
- Inadequate financial education

2) PV too low

- Did not start saving in residency
- Inadequate savings rate
- Past investing mistakes
- Failure to take advantage of tax-advantaged accounts

3) PMT too low

- Set lifestyle too high to allow adequate savings rate
- Value spending now more than early retirement (nothing wrong with that)

4) FV too high

- Still have student loans
- Still have a mortgage
- Poor spending habits
- Prefer higher retirement spending to early retirement (nothing wrong with that)

Will I Retire in 5 Years?

At current spending levels, we need about $80K a year. Of course, if I were retired, I’d probably spend more time and money traveling and playing. Also, it’s probably a good idea to have a little extra for those big one time expenses you never budget for. So let’s round it up to $100K. Our retirement portfolio is now in the upper 6 figures, we’ll call it $750K. This year I’m putting away something like $150K toward retirement, and could probably keep that up for 5 years. My returns over the last decade are over 9%, so we’ll use that. The NPER function says I’m 6 years out. I would also need to get that mortgage paid off and top off the college accounts, but I think I could manage all that, if we really wanted to.

But the fact remains that I’m not sure I have something to retire to in 5 years, so I probably won’t. Besides, I think I’d rather work a little less or spend a little more, both now and in retirement. As I’ve written before, retiring early has
a lot of costs. Add another 10 years on to my career and I could retire with 3 times the retirement income given that same savings rate. Or I could cut my savings rate in half and just retire with 2 times the retirement income. It’s nice to have options.

What Could Go Wrong?

Well, the astute observer probably noticed I totally ignored inflation in those calculations. It’s worked in to the 4% withdrawal rule, and given our currently low levels of inflation, it’s not so unreasonable to just completely ignore it over a short period, like 5 years. But if you get out much further than that, you’d best start paying attention and adjust your returns downward by 2-4%.

Sequence of Returns risk could also rear its ugly head. The reason I’ve managed 9%+ returns over the last decade is because I take on quite a bit of investment risk. If that risk shows up in the next 5 years, and especially the first five years after retirement, that would blow this plan apart.

My income could also fall, making it difficult to sustain my PMT each year for 5-15 years.

I could die or get disabled or cancer could be diagnosed in my spouse or me.

So what’s the solution to all of these issues?

First, make sure we’re insured- disability, life and health. Second, work a couple more years. If there’s a big bad bear. Keep working. If inflation has spiked, work a couple more years. If I don’t save enough or reach my goals, a couple more years of compounding will work wonders. Retiring at 47, or even 57, instead of 45 or 55 isn’t the end of the world, especially when I haven’t found anything to retire to that I would enjoy more than what I’m doing now.
Run the numbers yourself using these excel functions. What would it take for you to retire in 5 years? Possible? Why or why not? Comment below!