The Retirement Guide for

DENTISTS

Spaugh Dameron Tenny
Financial Planning for Physicians and Dentists

Introduction

When can you retire? It's a question that is exciting and brings hope, enthusiasm, and maybe energy to you if there has been anticipation to retire throughout your career. For some dentists, the question of when you can retire may bring fear, anxiety, dread, and confusion because, admittedly, it is a transitional period that involves several complicated decisions.

Regardless of which side of the fence you're on when it comes to retirement, it is important to understand your options and set a plan in motion that will help prepare you for a comfortable retirement. As a dentist, you may not know where to begin the retirement planning process because your specialty is in the healthcare field, not finance. On top of that, you have a full plate. Dedicating your time to your patients and your family makes it hard enough for you to find time to do the simple, enjoyable things like a free day for yourself, let alone create a retirement plan. If this is you, just know you're not alone. Many dentists are in the same boat when it comes to planning for your own future.

Before diving in, ask yourself this question, "Do you want your retirement days to feel like weekends and vacations? Or do you want your days in retirement to feel like regular workdays?" We all know we spend more money on weekends and vacation, which means, planning ahead for that retirement lifestyle is going to take strategic savings and investments. That is why we created this Retirement Guide, so you can get the answers you need to make a retirement plan that you feel confident in. Here are the things you need to know to make retirement planning more simple.

Let’s Create a Retirement Plan!

If you haven’t started your retirement plan yet, don’t worry. You’re not alone, but it’s time to set a plan in motion. According to Fidelity, in Q1 2020, the average 401(k) balance was $91,400 and the average IRA balance was $98,900. As a high-income earner you want to make sure you have even more than the average to maintain your lifestyle. A common rule of thumb is to have 20 to 25 times your pre-retirement income in total savings and investments.

Are you on track to fund a comfortable retirement? Regardless of where you are with your retirement savings plan, you can change your trajectory by starting now.

Why is it important to create a retirement plan? Creating a retirement plan will ensure that you have the correct amount of funds to cover your bills, wants, and needs after you retire. If you want to ensure your retirement income, savings, and investments will allow you to maintain your desired lifestyle, it’s prudent to be thoughtful in your retirement planning approach. You could run out of money during your retirement if you don’t consider how long your savings will last.

What to Consider Before Making a Retirement Plan

There are many things that you should consider when planning your retirement. Do you plan on taking a vacation every year? Are you planning to work part-time to have something to do? These are many questions that medical professionals forget to ask themselves when planning for the future. Here are some of the main factors to consider before deciding your retirement:

1

SAVINGS & INVESTMENTS

Think about your savings and investments. Do you know how they are allocated between IRAs, taxable accounts, or tax free accounts? Understanding the blend of stocks, bonds, mutual funds, and annuities is very important.

While investment and account allocation are important, most people tend to focus on these attributes too much and forget this is only one piece of the retirement puzzle. There are five more elements that are prudent to understand.

2

LIFE EXPECTANCY

Do you know how long your money will last? You need to consider your life expectancy when preparing your retirement plan. The average life expectancy is 78.7 years, but depending on family history, yours may be higher or lower. Taking into account your life expectancy will prepare you to save funds accordingly.

Determining whether you need your funds to last for 10-20 years is very different than calculating the financial needs for a 30-40 year retirement. It's important to be aware that because of advances in medicine, for a married couple aged 65 there is a 25% chance that one of them will live to 90. There is a 10% chance one of them will live to 100!

3

SOCIAL SECURITY

While many high income earners don't think social security will be important in their retirement plans, the benefits for a married couple can easily range from $50,000 to $70,000 of income annually.

The age at which you begin collecting your Social Security retirement benefit significantly impacts the amount of monthly benefit you will receive. Your decisions around social security have the potential to vary by hundreds of thousands of dollars depending on the actions you take.

Most people don't realize social security retirement benefits increase at a guaranteed 8% annualized rate if you delay filing beyond your full retirement age. In contrast, if you file at age 62 (which is considered early) there will be a 25% annual reduction in your retirement benefits compared to filing at your full retirement age.

Start to think about what age you plan to retire. If you plan to retire earlier than full retirement age, be sure to see how that may affect your future social security benefits.

4

LIFESTYLE & EXPENSES

It's very important to have an accurate understanding of what it costs to maintain your standard of living. How much of your annual lifestyle consists of fixed expenses such as utilities, taxes, insurance, and groceries? On the other hand, how much is comprised of variable or discretionary expenses such as travel, charitable giving, gifts to family, etc.?

Understanding this breakdown of lifestyle expenses and forecasting for the near term and the long term is a key component of retirement planning. Your lifestyle may change as you age, therefore your expenditures in your 60s could look much different than your financial needs in your 80s. Common changes include increased healthcare costs and decreasing travel expenses.

Awareness of your wants and needs will help you create a budget that will last you throughout your retirement. With the right planning, you can determine how lavish or frugal your retirement can be.

5 INFLATION RATE

Inflation is the economic trend of prices rising over time while the purchasing value of money simultaneously decreases. Another way to think about inflation is to consider this question:

Is it possible that the price you paid for your recent car purchase is roughly equivalent to the cost of your very first home?

Inflation is the reason why a dollar today is worth more than a dollar will be worth in the future.

Because inflation happens slowly over time, it can easily go unnoticed and be under appreciated as a risk to your future retirement income. You can mitigate this risk by investing your money wisely.

6 MEDICAL COSTS

As you grow older, you may experience health issues and unforeseen medical costs.

In fact, Fidelity estimates that the average couple will need $295,000 for medical expenses in retirement, excluding long-term care costs.

To better plan for your medical needs, you may want to ask yourself a few questions:

- What is your health history?
- Are there any genetic health issues that run in your family?
- Do you have a life insurance policy that covers long-term care services?

Answering these questions can help you create a more informed budget to prepare for any unexpected medical bills.

Strategic Saving & Investing

Allocate your assets and choose your investments with confidence

Your next step is to plan how to allocate your assets. What's your investment strategy? Should you continue to invest even after you retire? If you are unsure of the best way to allocate your assets, now may be the perfect time to connect with a financial advisor to discuss an allocation strategy that will fit your lifestyle needs. For example, if you are contributing a monthly allowance to a 401(k) or Roth IRA, then you are using a dollar cost averaging investment strategy. If you are buying stocks, mutual funds, or using other investment vehicles, understanding how dollar cost averaging works can help you build a sound investment strategy.

Read Related Article:

The Power of Dollar-Cost Average Investing

Choose your investment strategy: How much can you risk?

There are many approaches you can take when choosing your investment strategy, but the most important thing to keep in mind is that your investment allocation should align with your time horizon. While many retirees fall victim to the conventional wisdom that the start of retirement should mean a shift to more bonds (low volatility), the reality is that today's retiree often has a 20-30 year life expectancy. You need an investment allocation that will keep up with inflation throughout your possible multi-decade retirement.

Should you continue to invest after you retire?

Because you could have 30+ years in retirement, you'll need to make sure that your money will last longer than you do. To do this, continuing to invest in your retirement may be a good option to cover lifestyle changes or unforeseen life events. The last thing you want is to run out of retirement funds in the latter years of your life.

Should You Consolidate Your Retirement Accounts?

Because many people have a variety of retirement accounts, to simplify things, you may choose to consolidate your retirement funds into a single account. Consolidating your retirement portfolio can also have some additional benefits.

Consolidating your retirement accounts:

INFLATION RATE

Duplication reduces diversification in your investment portfolio. If you are too heavily invested in a specific stock that goes down drastically, this can negatively impact your funds if all of your money is invested in this one low performing stock. Consolidating can eliminate instances of duplication and increase diversity across investment classes.

SAVES TIME AND HEADACHES

Dealing with numerous retirement accounts is time-consuming and often difficult to manage. Consolidating your retirement accounts into a single account can save you time and hassle because it makes it easier when it comes to tax reporting and making changes to your beneficiaries.

GIVES YOU THE POTENTIAL TO SAVE MONEY

Multiple accounts typically means having multiple account fees. By consolidating your retirement accounts you can save money by reducing the overall fees you pay.

Before consolidating your retirement accounts, be sure to talk to your financial advisor to see if this makes sense for you. Everyone's financial situation is different. Although consolidating has numerous benefits associated with it, this option may not be for everyone.

Retirement Planning

Reflect on the lifestyle you want to maintain:

- What hobbies or activities do you enjoy? Think about things like vacation costs, country club fees, and ongoing hobby expenses.
- What do you want to be able to do with your family, children, and grandkids? Expenses to keep in mind include: potential travel costs to visit family or friends, birthday and holiday gifts, education-related expenses, and more.

Research disability income and long-term care insurance:

- You might be planning to save money by avoiding a retirement community or nursing home, however, staying at home while requiring professional assistance can be costly, which could rapidly deplete your assets.
- Life insurance can protect your retirement funds by covering end of life care if you need it. Otherwise, there is a death benefit for your beneficiary.

Meet with an estate planning attorney:

- Prepare a will, living trust, and advance directive. This ensures that your wishes are clear and followed after your death.
- Establish a place to keep these important files at home. Banks will even let you store important information in their safe. Tell someone you trust where this information is located and make sure it's in a fireproof storage box.

In the year before you retire you should:

- Have a medical checkup with your doctor.
- File for social security benefits with the social security office.
- Review your budget. Ask yourself if it's realistic.
- Research relocation options if you are planning to move homes.
- Talk to the Human Resources department at work to make sure you understand everything that needs to be completed prior to retiring.

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Are you ready to put your retirement plan into action?

It's never too early to begin preparing for retirement. Planning now will ensure you are on the right path to meet your goals and will help make the transition process much less stressful as you approach retirement. If you are ready to put a plan into action, but feel like you could use some help with these important decisions, it may be time to talk with a financial planner.

At Spaugh Dameron Tenny, we specialize in helping dentists create personalized retirement plans that meet their financial goals. Connect with our dedicated team of financial advisors to get started today!

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