SEVEN RETIREMENT PLANNING STRATEGIES FOR DERMATOLOGISTS

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Retirement planning focuses on saving money today in order to provide a lifestyle for you and your family in the future, when you decide to slow down or stop practicing dermatology altogether. If you want to retire comfortably, you need to live below your means in order to invest, reduce your debts, and increase your net worth. This article will provide you with seven strategies to help you achieve that goal.

1) Set a goal

The first step is to determine your goal — the more specific the better. How much money do you want to have each year in retirement and when do you want to retire? We all know this answer is likely to change throughout your career, but seeing the end from the beginning goes a long way toward achieving your goals.

A typical physician can retire quite comfortably on 30 to 60 percent of his or her pre-retirement income. You'll pay less in taxes, have no need for retirement savings, be free of your mortgage, and have the kids out of the house and, hopefully, out of college or graduate school. Visit http://whitecoatinvestor.com/percentage-of-current-income-needed-in-retirement/ for thoughts related to the percentage of current income needed in retirement for physicians.

2) Start early

Let's look at a dermatologist who wants to be able to spend $100,000 per year in retirement (and expects $25,000 from Social Security). He will need a portfolio of $1,875,000 (based on a 4 percent withdrawal rate) in today's dollars, and he achieves an average return of 5 percent per year (after expenses, taxes, and inflation), he would need to save approximately $27,000 per year (increased each year at the rate of inflation). However, if he waited until age 50 to start, he would have to save approximately $83,000 per year to ensure the same income in retirement.

3) Apply a reasonable rate of return

Many physicians mistakenly assume their investments will grow at a rate of 10 percent or more per year. The truth is that after investment expenses, taxes, and inflation, a typical portfolio is likely to grow at only 4 to 5 percent per year. That means you have to start earlier and save more money than most physicians believe.

4) Minimize your expenses

The less you pay in advisory fees, commissions, and management fees, the more money you keep. Many physicians find that having most or all of their retirement funds invested in a few diversified, low-cost index funds helps them minimize their investment expenses and portfolio complexity, while still capturing market returns.

5) Minimize your taxes

Your most significant investment expense is likely to remain your tax bill. Maximizing your use of 401(k) plans, 403(b) plans, 457 plans, profit sharing plans, and defined benefit plans will not only reduce your taxes initially but will allow your money to grow on a tax-deferred basis.

We also recommend that dermatologists take advantage of Roth IRAs. Although you might think your income is too high to allow you to contribute, you can take advantage of a loophole that allows anyone to convert a non-deductible traditional IRA to a Roth IRA regardless of their income. You can learn more at http://whitecoatinvestor.com/retirement-accounts/backdoor-roth-ira/.

Although Roth IRAs don't save you anything on your current tax bill, they do provide tax-free growth and tax-free withdrawals in retirement, providing valuable tax diversification.

6) Saving 10 percent for retirement isn't enough

Dermatologists should also save 20 percent of their income towards retirement — starting the day they graduate from residency. While it's true that if you start early, you can save less, saving 20 percent provides flexibility for years where you might not be able to save as much, to allow for poor investment returns, or for a personal or financial catastrophe such as divorce or disability. If all goes well and none of these scenarios materialize, then you will be left with a wonderful choice: retire earlier or retire wealthier.

7) 4 percent withdrawal rate

A rule of thumb often used by financial

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planners is that you can safely withdraw about 4 percent of your nest egg each year of retirement. This rule says, in essence, that you must save about 25 times your annual expenses, or that you can withdraw about 4 percent of your portfolio in the first year of retirement and then adjust that amount for inflation each year, with little chance of running out over a 30-year retirement.

Summary

Saving for retirement isn't as hard as you might think. Begin educating yourself now, set your goals, save early and often, minimize your investment expenses and taxes, and most

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RECOGNIZE SOMEONE?

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