

## *How Much Do You Need to Retire?*

You probably started practicing dentistry between the ages of 25-30 unless dentistry is a second career. When you graduated from dental school, you had as your priorities finding a job which would earn you enough to pay your student loan debt and your other living expenses. Maybe you were newly married and just starting a family, or had just bought a house.

The last thing on your mind was retirement. That was 30-35 years away. And trying to save for it; well, that was not on your top ten list. However, it is something you should be thinking about. And the earliest you start, the sooner you will be able to retire.

So what is the magic number that you need to retire? Well, it really depends on the lifestyle you want once you retire. A few things for you to think about:

-First, it is a goal of mine for my clients to have their home paid for on the date they retire. I advise that by the time you reach the age of forty you should have chosen the house you intend to live in up to the date you retire. Many dentists who bought their homes between 1970 and 2000 very likely have significant appreciation in their home despite the bursting of the real estate bubble in the past few years. This could provide an opportunity to supplement your retirement income. Say for example you bought a home in 1980 for \$200,000 and now it is worth \$1.5 million. If you put over the years \$300,000 in improvements into the home, you would have an income tax basis of \$500,000 and if you sell it for \$1.5 million (say after selling expenses) you would have a taxable gain of \$1,000,000. Subtract from that the \$500,000 exclusion for the sale of a principal residence and your taxable gain is \$500,000. For a sale in 2010 you would pay income tax of approximately 25 % or \$125,000 leaving you \$1,375,000.

Say then you find a home that is smaller (remember the kids are probably gone) for say \$600,000. You can in most counties take your original property tax base with you and you would have after you paid for the home an additional \$775,000 left for retirement with no house payment.

-Next figure out what you need to live on in retirement, a good rule of thumb is 80-90% of your pre-retirement income. So if you were taking home \$200,000 before taxes, then use \$160,000-\$180,000. Add to that the expenses you were running through your practice that will continue such as your car, travel, etc. Say that is \$15,000 (now be honest here-remember there is no more practice to run these expenses through). So let's use \$175,000 for the magic number.

-So let's look at what you will have as income after you retire. Most of you will have

Social Security. So let's say for husband and wife this is \$30,000. Maybe your non-dentist/spouse will have a pension from being a teacher of \$25,000 per year. Now we only need \$120,000 to meet our goal.

Most financial planners recommend that you withdraw between 4-5% of your nest egg. This is because the average return from equities has been over the past approximately 100 years has been 7-9%. Subtract from that an inflation factor of 3-4% and that gives you 4-5%. So how much do you need to have so that you can withdraw say 4% per year which is \$120,000?

Very simply multiply \$120,000 by 25 and you need \$3,000,000 (to check take \$3,000,000 times 4% and you get \$120,000). And if the dentist/spouse decides to work part-time after retirement, that cuts the amount needed.

-The last thing you need to calculate is how much you need to save annually. This is simply a math problem. The sooner you start, the more you will save.

If you start at age 30 and save \$25,000 per year at a 6% growth rate, you will accumulate \$2,861,670 by age 65. And if you save \$40,000 starting at age 30 at 6% until age 65 you will have accumulated \$4,578,675. Both of these numbers gets you to your goal.

However waiting another ten years will be very costly. Starting at age 40 and earning again 6% your portfolio will be worth \$1,408,933 if you save \$25,000 per year and \$2,254,294 if you save \$40,000 per year.

You can just imagine the drop in your nest egg if you wait much past age 40.

So the key is to start early, get into the habit of saving money, invest conservatively (one of my golden rules in my book "The Art of Finance" is that 6-8% return is boring, but it sure does work). Establish a qualified retirement plan in your practice as soon as you can, and let's get started.