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Partial or full retirement requires careful planning

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For many physicians, partial retirement offers the best of both worlds—enough work to remain on top of their game, enough freedom to enjoy life. What’s stopping them? Money.

Because physicians enter the workforce later—and often significantly in debt—they have fewer years to build retirement savings. Longer life expectancies mean retirement income will need to stretch further. By planning carefully and building flexibility into your standard of living, you can work less. Consider these questions.

What Are Your Sources of Income in Retirement?

If you are a shareholder in a practice, you will need to review the terms of your partnership or incorporation contracts. How will the practice be valued? Will you receive your equity in a lump sum or in payments over time? Are you entitled to a portion of the accounts receivable? What are the buyout contingencies? Many physicians who are phasing into retirement will sell their share and become employees of the practice or take locum tenens positions to continue to earn income and visit other parts of the country.

Other sources of income to consider include investment returns, royalties on patents, inheritance, rental property income, real estate liquidations, Social Security, pension, and employer-sponsored retirement plans.

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What Will Health Care Cost?

Employer-sponsored health care benefits may be prorated or unavailable if you don’t work full time. Medicare begins at age 65, but those benefits do not extend to family members. Many people who postponed having children are now approaching retirement with college-age children who still rely on them for health care insurance. Investigate the cost and availability of health care coverage for you and your dependents.

What Are Your Lifestyle Expectations?

In my experience, the standard advice, “expect to spend 60% to 80% of your current income in retirement” does not apply to physicians. Too busy for travel, vacation homes, golf, and other hobbies during their working years, many physicians find themselves with the time—but not the means—to enjoy the good life in retirement. Develop a good understanding of the costs associated with the lifestyle you wish to lead to determine if you’ve accumulated enough assets.

How Much Will It Cost to Live?

In addition to discretionary expenses, you will continue to incur cost-of-living expenses. Property taxes, utilities, home and auto insurance, transportation, home maintenance, and other everyday expenses will continue to increase, taking an ever larger share of your retirement income.

Keep in mind that you may face new expenses as you become older, including higher out-of-pocket medical costs, supplemental health insurance, pharmaceutical care, in-home assistance, remodeling to accommodate

physical limitations, and long-term care.

How Can You Make Your Money Last?

There are no guarantees that your money will outlast you. In general, postponing partial or full retirement means a continued source of income and benefits, a higher equity value for your practice, and more time for your retirement portfolio to accumulate interest and grow.

On the expenditure side, think carefully about the financial choices you make. Can you afford your commitments if the stock market goes south? Are you prepared to change your lifestyle if your expenses rise faster than your income? We typically recommend people approaching retirement consider 3 budget scenarios:

- Bare bones: What you need to live
- Target: What you need to live in comfort
- Luxury: What you need to live in style

Ideally, spending no more than 4% to 5% of your accumulated investments annually during your first few years of retirement gives you a high probability that your funds will last for 30 years or more in retirement. However, if you spend more than 6% of your accumulated wealth annually, you may be setting yourself up for an unsustainable lifestyle down the road.

Effectively planning for your anticipated expenditures prior to retirement helps you 2 ways: (1) it enables you to allocate expenditures in the budget scenarios outlined above; (2) it provides you with the peace of mind that you have the financial resources to sustain your lifestyle over time.

Wisconsin Medical Journal

The mission of the *Wisconsin Medical Journal* is to provide a vehicle for professional communication and continuing education of Wisconsin physicians.

The *Wisconsin Medical Journal* (ISSN 1098-1861) is the official publication of the Wisconsin Medical Society and is devoted to the interests of the medical profession and health care in Wisconsin. The managing editor is responsible for overseeing the production, business operation and contents of the *Wisconsin Medical Journal*. The editorial board, chaired by the medical editor, solicits and peer reviews all scientific articles; it does not screen public health, socioeconomic or organizational articles. Although letters to the editor are reviewed by the medical editor, all signed expressions of opinion belong to the author(s) for which neither the *Wisconsin Medical Journal* nor the Society take responsibility. The *Wisconsin Medical Journal* is indexed in Index Medicus, Hospital Literature Index and Cambridge Scientific Abstracts.

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