

It's
Retirement
Time!

How Do I Get My

Money?

DO-IT-YOURSELF FINANCE viii

by Douglas Carlsen, DDS

1. Finalize your retirement spending and total saving needs.

First, figure your retirement budget and income. My calculation sheet is at www.golichcarlsen.com/wp-content/uploads/2013/04/2013-Dentists-RETIREMENT-BUDGET-Townie.pdf. Alternatively, figure your retirement budget on your own, and multiply by 1.4 to add in taxes you'll pay in retirement.¹

Next, use the best online individual program available, Financial Engines, at <http://corp.financialengines.com> to evaluate your financial situation. It provides a Monte Carlo simulation, tracks your investments in real time, and provides fiduciary advice

for your investments. It costs \$150 per year, yet beats that one percent "wrap" adviser fee by a mile.

Alternatively, use Money Chimp's free Monte Carlo simulator at www.moneychimp.com/articles/volatility/montecarlo.htm to evaluate your total retirement savings need and strategy.

2. Analyze when to begin taking Social Security benefits.

Finally, the chorus of "but Social Security won't be there" has virtually disappeared. Social Security web site says: "The trust fund ratio... peaked in 2008, declined through 2011, and is expected to

1. This assumes a 29 percent combined federal and state tax rate—lower than most dentists pay pre-retirement, yet much higher than ESPlanner's projected rate of 23% for professionals in retirement.

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decline further in future years. After 2020, Treasury will redeem trust fund assets in amounts that exceed interest earnings until exhaustion of trust fund reserves in 2033.”²

Let’s peer back to the late 1970s and early 1980s. Inflation ran rampant with a stagnant stock market from 1965 until late 1982. From Scieiber and Shoven’s book *The Real Deal*, “In 1982, projections indicated that the Social Security Trust Fund would run out of money by 1983.”³

Boomers’ parents were totally freaked. *One year’s notice!* And *we’re* worried about 2033? What happened in 1982? Congress raised the payroll tax less than one percent, started taxing benefits for higher income retirees and increased the full retirement age from 65 to 66 or 67 for future retirees. That has stood us well for 30+ years.

These days, neither Democrats nor Republicans appear out to touch core payments. I do think inflation indexing will be adjusted, taxation of 100 percent of benefits will occur, and there will be no maximum income cutoff for payroll or self-employment taxes.

Most Americans start to take Social Security benefits at age 62, yet fail to note that they would “earn” an eight percent higher rate for each year they wait past age 62.

Full retirement age 66 (born between 1943 and 1954): Most private practice dentists will receive about \$30,000 per year in 2013 dollars at age 66. If one chooses to start benefits at age 62, the monthly benefit will be reduced by 25 percent to \$22,500 per year. If one chooses to delay benefits to age 70, the monthly benefit increases by 32 percent to \$40,000 per year.

Full retirement age 67(born 1960 and later): Most private practice dentists will receive around \$30,000 per year in 2013 dollars at age 67. If one chooses to receive benefits at age 62, the monthly benefit will be reduced by 30 percent to \$21,000 per year. If one chooses to delay benefits to age 70, the monthly benefit will increase by 24 percent to \$37,200 per year.

Spousal Benefit: Even if he or she has never contributed to Social Security, your spouse may receive a benefit equal to one-half of your full retirement amount at their full retirement age.⁴ Your spouse will have the option of either choosing his or her personal calculated benefit or the spousal benefit, whichever is higher.

In other words a dentist and spouse born before 1955 will have at least a \$45,000 annual benefit at age 66. If they wait until age 70 to begin payments, they will receive at least \$60,000 per year. A couple born after 1959 will have at least a \$45,000 annual benefit at age 67 and will receive at least \$55,800 if they wait until age 70. For a dentist born any year, the difference in delaying benefits from age 62 to age 70 for a couple is more than \$26,000 per year!

Different studies show a different “break even age” – the age at which one starts to benefit more from taking benefits later. All have the age in one’s early 80s. If your genes point to living beyond your early 80s, it often makes sense to delay taking Social Security benefits to age 70.

For more information on Social Security strategies for couples, such as the “file and suspend” option, go to www.socialsecuritychoices.com. For the Windfall Elimination Provision, rarely affecting dentists, go to www.ssa.gov/retire2/wep.htm.

2. <http://www.ssa.gov/oact/trsum/index>

3. Sylvester J. Schieiber and John. B. Shoven, *The Real Deal*, 1999, p. 190.

4. <http://www.socialsecurity.gov/retire2/yoursouse.htm>

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3. Take stock of your taxable and tax-deferred funds and consolidate.

Most doctors have multiple accounts at multiple brokers. A common finding may be an ADA group annuity fund from AXA Equitable, a practice 401(K) held at Schwab, a personal IRA held at Fidelity and a taxable account held at Vanguard.

Normally, all funds can be transferred to one institution. Any brokerage can consolidate your funds. For example, you may keep Fidelity or American funds in your Vanguard or T. Rowe Price brokerage account. It's always preferable to consolidate to a discount brokerage for ease of access and low fees.

4. Decide how you will withdraw your investment income stream.

Order of withdrawal: Most investors should use the following order: required minimum distributions (at age 70.5+); taxable assets; tax-deferred assets; and last, tax-free assets.

Four Percent Method: Have your brokerage rebalance-down your portfolio at the beginning of each year, transferring four percent of the funds to your bank. You withdraw funds as needed. Each year you increase the amount withdrawn by the CPI index.

How safe is it to withdraw four percent each year? William Bengen wrote the definitive analysis of this approach in *Conserving Client Portfolios During Retirement*.⁵ He looked at a mix of large cap U.S. stocks and intermediate-term U.S. Treasuries. As long as a client held between 50 percent and 75 percent in stocks throughout retirement, a four percent withdrawal rate would almost always last for 30 years.⁶

Paul Merriman has since shown that using a more diversified portfolio of intermediate and short-term bonds along with a variety of U.S. and international large and small stocks provides an even better scenario with the four percent withdrawal rate.⁷ The four percent method assumes all funds will be exhausted by age 95 for both partners.

5. William P. Bengen, *Conserving Client Portfolios During Retirement*, FPA Press, Denver, CO, 2006.

6. *Ibid.*, page 33.

7. Paul Merriman, *Live It Up Without Outliving Your Money*, John Wiley and Sons, Inc., Hoboken, NJ, 2005 with 2.0 update workbook 2009.

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Bucket Method: This is a more conservative variation to the straight four percent method. Place money you will need for the next three to five years in cash and bonds to protect against market declines with the remainder of funds held in a stock/bond mix. As one year's funds are used, funds from the stock/bond mix are transferred into the cash/bond fund. Having more than two buckets is normally not needed and a four percent withdrawal rate is normally indicated.

Target-date (Life-cycle) Funds Method: This is an autopilot method and has the lowest fees. The fund automatically rebalances and you can direct the brokerage to fund your bank at four percent annually.

Managed Payout Funds Method: Vanguard's Managed Payout Growth and Distribution Fund is another autopilot method and currently pays 4.4 percent per year with low fees (0.4 percent) and low risk of running out of money during retirement. This is not an annuity, so your heirs can receive the remainder of funds.

Immediate Fixed or Variable Annuity Method: Your heirs do not receive a benefit upon your death. High and hidden fees normally cut retirement income benefit to a lower level than the other options. The positive is you can't outlive your money. ■

Author's Bio

Dr. Douglas Carlsen has delivered independent financial education to dentists since retiring from his practice in 2004 at age 53. For Dentists' Financial Newsletter, visit www.golichcarlsen.com and find the "newsletter" button at the bottom of the home page.

Additional Carlsen DentaTown articles are at: www.dentaltown.com. Search "Carlsen." Videos available at: www.youtube.com/user/DrDougCarlsen. Contact Dr. Carlsen at drcarlsen@gmail.com or 760-535-1621.



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