

As You Begin, a Word on ‘the end’

By Jerry Love, CPA/PFS, CFP

Although retirement may seem eons away — and it may seem a strange subject to bring up in conjunction with a practice startup series — you’d be wise to begin planning for it as you begin your private practice. First, consider that many physicians will not be selling their practices when they retire. If they do sell rather than simply transferring their patient panel to colleagues, the amount they receive from a buyer will often be insufficient to fund their retirement goals. Fact is, many practice owners overestimate the true market value of their blood, sweat, and tears — a business is worth only what purchasers are willing to pay for it.

Another fundamental truth: Most physicians will need a substantial account in order to generate an annual income that can sustain their lifestyle during retirement. Many planners are rethinking the notion that you’ll need only about 80 percent of your pre-retirement income after you stop working. As we stay active and healthy longer and longer, plenty of folks will want to spend their golden years traveling and having other adventures — you’ll need to ensure that you have ample cashflow to make your dreams happen. And if you have hopes of early retirement, the picture shifts further.

To illustrate this, assume that a physician who retires this year would like to have an annual income of \$200,000. Further assume that she will draw only 4.5 percent annually from her retirement assets. This physician would need approximately \$4.5 million in her retirement account the day she stops practicing.

In order to accumulate this sum, if you assume an average and consistent rate of return of 7.5 percent during the years that funds are building, our hypothetical physician would need to save an average of about \$31,000 per year over a 34-year period. If she didn’t save anything during her first 14 years in practice, she’d need to set aside \$100,000 per year for the remaining 20 years in practice to reach her goal. Finally, if she delays the funding until just 10 years prior to her target retirement date, she’d need to save approximately \$320,000 per year. *Ouch.*

Although retirement may be the last thing on your mind as you begin in private practice, it should be among the items worked into your initial annual budget. Unfortunately, I know plenty of physicians who were never able to realize the goal of retiring because they didn’t start the planning process soon enough.

Jerry L. Love, CPA/PFS, CFP, is president and CEO of Davis, Kinard & Co., P.C., an accounting firm in Abilene, Texas. He can be reached at jlove@dkcpa.com or via editor@physicianspractice.com.