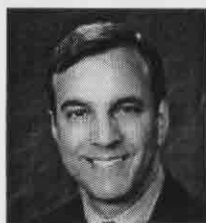


Ten Financial Tips for a Worry-Free Retirement

By David J. Schiller, Esq.



Mr. Schiller is a physician contract and tax attorney and has practiced in Norristown, Penn. for the past 30 years. He can be contacted at 610-277-5900 or www.schillerlawassociates.com or David@SchillerLawAssociates.com.

As a contract and tax attorney for physicians for over 30 years, I have reviewed many asset summaries of late-career physicians. Although most have historically strong annual incomes of \$200,000-\$400,000, accumulated wealth varies tremendously. Some physicians in their 60s have a home, a small retirement plan, and little else. Others have cash equivalents of \$5,000,000 or more, no debt, real estate, and other assets. In my experience, this variance usually does not relate primarily to income differences but rather spending control and financial knowledge. If you are interested in having the opportunity to retire and not worry about finding an "early bird" special at your favorite restaurant, this article provides ten tips to help you achieve that dream.

1. Fund a Roth IRA. Immediately start funding a Roth IRA. The current limit is \$5,500 per calendar year. The principal and interest will grow tax-free (not tax-deferred) over decades.

At your retirement age, you will have \$500,000 tax-free (invested at historic rates of growth).

2. Contribute to an employer retirement plan. Contribute to your employer's Roth 401-K or regular 401-K. Add money starting the first day you are eligible at the rate of at least 5% of your compensation. By age 35, contribute no less than 10% of your compensation up to the legal maximum. In a Roth 401-K, you will have decades of tax-free accumulation. You may also enjoy the employer matching contribution, which varies from job to job. Do not take loans on 401-K plans. If you borrow and then terminate employment before completing repayment, the borrowed funds are treated as a plan distribution, subjecting them to taxation and possibly a penalty if you are under age 59.5. If switching jobs, move your 401-K retirement plan account into an IRA; do not cash it out. If necessary, you usually can withdraw funds to make a down payment on a home or for an emergency, but plan contributions should

be viewed as "tomorrow" money. You can borrow to purchase a home and to finance your children's educations but you cannot borrow to retire.

3. Be debt-free. It is easier to accumulate wealth if you are debt-free. Mortgages, student loans, and car payments should be minimized and eliminated as quickly as possible so that available net income is used to invest both through retirement plans and on an after-tax basis. Cars should be purchased, not leased as the "tax benefit" of leasing is a myth. Leasing a car is an expensive way of borrowing money, as you are effectively purchasing only the most expensive depreciating years of the car's useful life (the initial few years). You should also not have credit card debt at any time as credit card debt means you are spending money before you earn it. Borrowing for clothing or a vacation reflects the inability to control one's spending.

4. Use tax-advantaged investment vehicles. Interest income on your investments is taxed at ordinary income rates, perhaps 30% or more,

but dividends issued from stock or stock mutual funds are taxed at lower long-term capital gains rates. Similarly, when you sell a stock or a stock mutual fund, the appreciation is taxed at long-term capital gains rates under most circumstances. As you are able to set funds aside, make sure that you are using tax-advantaged investment vehicles.

5. Consider no-load mutual funds. When investing in the stock market or otherwise, consider no-load mutual funds such as those offered by Vanguard that do not require an "investment advisor." Such funds do not have sales charges and save you money. The greatest chance you have of underperforming the market relates to the expenses associated with investment, more so than the particular investments selected. Since almost all advisors underperform the

of your children, would you rather pay astronomic tuition bills for 4-8 years of college or 16-20 years counting grades 1-12 in private school? When you have children approaching school age, choose an A+ school district and send your kids to public school, not private school – they will still get into competitive colleges. This can save hundreds of thousands of dollars per child.

8. Fund a 529 plan. Whether or not you currently have children, you can fund a 529 plan to enjoy tax-free growth and plan for education expenses of children or future children. If you do not have children yet, you can name yourself or a different party as the beneficiary and then change it after children are born. If you do not have children, you can either use the 529 for someone else or cash the investment

In my experience, the variance in accumulated wealth between doctors approaching retirement usually does not relate primarily to income differences but rather to spending control and financial knowledge.

market, you should consider investing on your own, minimizing costs, and watching your funds grow. As a younger physician with many high-income years in front of you, a good portion of your investments should be in equities to enjoy their appreciation over decades. With bank interest rates being minuscule, there is no reasonable alternative.

6. Develop a budget. If you or your spouse has an issue with shopping or overspending, it is imperative that you develop a budget: first allocating funds to long-term savings such as a retirement plan, next to short-term savings, then to unavoidable recurring costs such as rent or mortgage, student loans, food, and discretionary expenditures. The perfect time to put this in place is when you go from the salary of a resident or fellow into a full-time job and your pay increases by multifold. Read the book *The Millionaire Next Door: The Surprising Secrets of America's Wealthy* by Thomas J. Stanley and gain control, as it is easy to do otherwise with an unprecedented and significant salary jump. If you start to live on your new salary, you will never be in a position to amass wealth and retire comfortably.

7. Send your kids to public, not private school. For each

and recover the money including growth/loss thereon. Trying to fund college educations out of current income is difficult and it is better to prefund than to pay back student loans over many years.

9. Draft a will. If you are married or have children or both, it is imperative that you have wills drafted so that your wishes are implemented upon your passing. Many tax advantages are available without using complicated trusts and it is important that you maintain up-to-date wills should the unforeseen occur.

10. Purchase disability and life insurance. Your most valuable financial asset is your income stream over the coming years. Protect it with adequate private disability and life insurance policies. Policies provided by your employer typically end upon termination of employment and having a portable policy is important.

These tips will help you maximize your financial position over your work life and through retirement. The best time to get on the right track is yesterday; the second best time is today. Staying in shape financially is easier than messing up and then attempting to fix it. ■