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Risks in Retirement for Physicians

by Steven Podnos, Md, Cfp • May 16, 2016 • 1 min read • original

When physicians begin to consider how much money they will need to retire on, they can start with a couple of broad factors. First, how long do they expect to live while they are drawing on their investment portfolio? Second, how much do they think they'll need annually to meet their lifestyle needs (or wants)?

We can generalize at the outset by stating that various distribution/withdrawal rates from a portfolio are historically likely to last certain periods of time in the worst case scenario. For example, many studies suggest that a 4 percent withdrawal rate from a portfolio at least one half in equities should last for 30 years or more most of the time.

But, we have to take some unknowns into account. One of the most important is how well the investments do in the first few years of retirement. A significant bear market may cause forced sales at bargain prices, which cannot be recovered over time. For this reason, we recommend several years of anticipated withdrawals be kept in safe short-term fixed income that is not exposed to traditional investment volatility. This is a real drag on growth in the portfolio, but it is necessary insurance.

Another great unknown is unexpected longevity. Remember that the "average" life expectancy for individuals reaching their sixties in decent health almost reaches the late eighties now (in the U.S.). The average means that half of us will live even longer.

Unexpected events and costs are always in the background. What if there is a pill in 2040 that you can take daily and can actually regain health? What if the pill costs $40 thousand a year in today's dollars? How do you budget for that? We don't know if we'll suffer extraordinary bad luck, trauma and/or illness.

Unexpectedly high inflation is a concern. If we had a period of double digit inflation, as in the 1970s, a portfolio that is not properly invested and adjusted could lose major value quickly. The purchasing power of the withdrawals after such a period may be inadequate.

I'm not writing a doom and gloom article here. Instead, I'd urge consideration of the many variables that go into planning for a multi-decade retirement. These factors (and more) need to be considered well before you stop working. I am increasingly encouraging families that I work with to keep working longer than planned. This may be for mental health, but it always provides more financial security.

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