How to get out alive, Part 2

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❶ *You need a plan. Even if you are a natural saver, you need to know where you are, where you are going, and how to get there.*

❷ *If you are a natural spender, you probably also need a coach to hold you accountable.*

❸ *You are going to live longer than you think.*

❹ *A rough rule of thumb for the amount of retirement funds you will need states that you need to have spendable funds of about $250,000 for every $1,000 per month of your current spending level — if you retired today. That figure grows to $333,000 if you retire in 10 years and $500,000 if you retire 20 years from now.*

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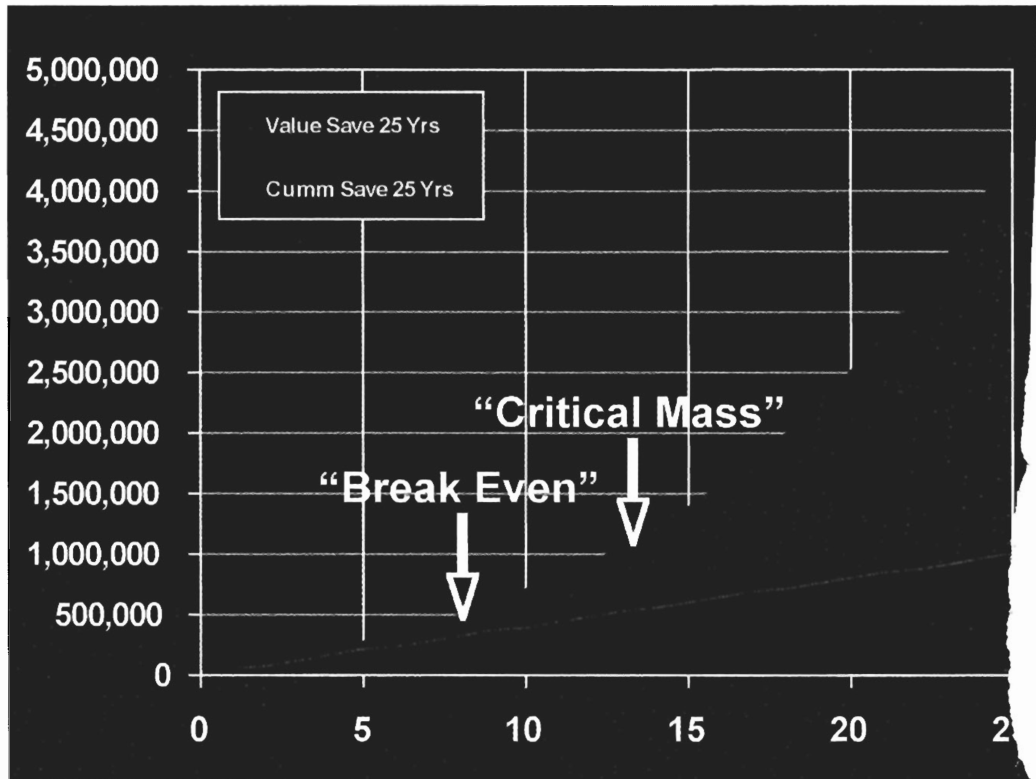

So, how do you get to your "wealth" goal from here? You probably missed your best option, and that was to choose wealthier parents! Others have tried to marry into money. That can have some complications. (If you "demarry," that poses some serious problems. That will probably set your retirement plans back 10 years. If you demarry twice, then you had better like dentistry ...)

Barring any of the above, most folks have to rely on the typical two sources for building net worth: doctor at work and money at work. Before you can have some money at work, the doctor at work has to prime the pump. So the practice is your financial engine for much of your career.

Doctor at work

As you know, it's not what you make, but what you keep that counts. This is true both at the practice level and the personal level. Based on statistics from the Academy of Dental CPAs, your true practice overhead (which excludes your salary, profit, fringe benefits, depreciation, and debt service) should be about 57 percent for a general dentist. Some offices run as low as 50 percent, anc specialists can reduce that by another 10 percent or sc Hopefully, you and your dental CPA are watching th: already.

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Then we get to the personal level. If you are doing your part to support the economy by living a few years *ahead* of your income and spending 106 percent of your current income, then you are just living high — you are not building true net worth. Some of you are to be

commended for having a "spending plan." (That sounds much better than a "budget.") But then there are the rest of us. You know you should save (like your patients *know* they should floss), but it just doesn't seem to happen. Here are some thoughts.

Before computers, Uncle Cletus reports that, in the coal mining camps years ago, the miners got paid in cash every week. On payday, the miners would give their wives the cash, and they would split it up into envelopes at home. One envelope was marked for rent, others for food, clothing, etc. You did not have to be a genius — or even the head cashier at Wal-Mart— to know when you had spent your budget in each category.

You could choose to move some money from one envelope to another, but the total cash in all the envelopes was fixed. No "instant raise" using credit cards back then. Of course, you can do the same with a computer now, but there is no fudging or getting behind on your bookkeeping if you are staring into an empty envelope.

The 7 percent solution

So, what if you have no interest, inclination or self-control to create a "spending plan," much less follow one? How do you get to the holy grail of "pay yourself first"? An effective and simple approach is to put 7 percent of your gross collections into your Getting Out ("GO") Account every day or every week.

Give your business staff a stack of deposit slips for the second account, and instruct them to physically put about 7 percent of the patient/insurance checks into the GO account. Out of sight, out of mind. Let's see what that could do for you.

Money at work

Suppose that you fund the GO account for 25 years. Let's say that you average $600,000 in gross collections for those years — in today's dollars —and that you can average a 10 percent annual return on your GO account savings. (Presumably, you would actually transfer as much of this as possible into some kind of retirement plan for tax-deferred growth.) Seven percent of $600,000 per year is $42,000, but I'll round down to $40,000. The chart shows that you will have over $4,000,000 after 25 years!

This chart has some other interesting lessons. First, an explanation. The green area represents the cumulative amount you put in — the $40,000 each year. The red area is the "free money" — the amount you earned on your money. The 7th and 13th years are two interesting bench marks. (Financial planners like Brian Hufford, Cain Watters, Mercer, etc., use various terms to describe these points, such as cross-over point and 1-to-1, 2-to-1, 3-to-1, etc.).

What I call "break-even" at year seven is the year in which your "free money" grows $40,000 — the same as the amount you saved that year! The "critical mass" point, around year 13, is the year that the total cumulative free money equals the total amount you have put in! Your goal is to get to critical mass as soon as possible. After that, you can go on cruise control, with your money doubling about every seven years.

Notice that the red part does not amount to much until the seven-year break-even point. In those early years, the rate *of* investing (i.e., how much you save each year) is more important than your rate of return *on* your investments. During this early phase, your job is to save and not worry about eking out a little more investment return. Once you have a significant sum, then the rate of return begins to overshadow the amount of additional deposits into the account.

What if you have squandered your asset of "time" and don't have 25 years? Then we have to kick it up a notch and use a brute-force approach. Let's say that yor are not getting your savings started until you are in youı 50s. Between tweaking your practice and decreasing your personal expenses (kids may be through college, home i paid for, etc.), you may be able to save much more tha $40,000 each year. You may need to look at a cross-teste 401(k) plan with your spouse on the payroll, or look at defined- benefit plan — or both.

If you have maxed out those qualified retirement pla and still have the ability to save more, then use "tax-ma aged" mutual funds for your personal savings. (These aı otherwise regular mutual funds, but the fund managei minimizes turnover to reduce taxes, harvests tax losses to offset gains, and strives for long-term capital gains if he or she does sell some of the underlying stocks.)

Of course, another option is to work longer. If you work from age 65 to 70, that is worth the equivalent of another $1,500,000 in your retirement plan. (You delayed drawing down your funds, so they grew longer. You may have added to your savings during those five years. You have five fewer years to live, so you don't need as much in the account on which to live.) You may have sold you practice and stayed on two days a week as the "world best associate."

Next time we will talk about the 10 percent rate of rє turn I used in the graph. **DE**

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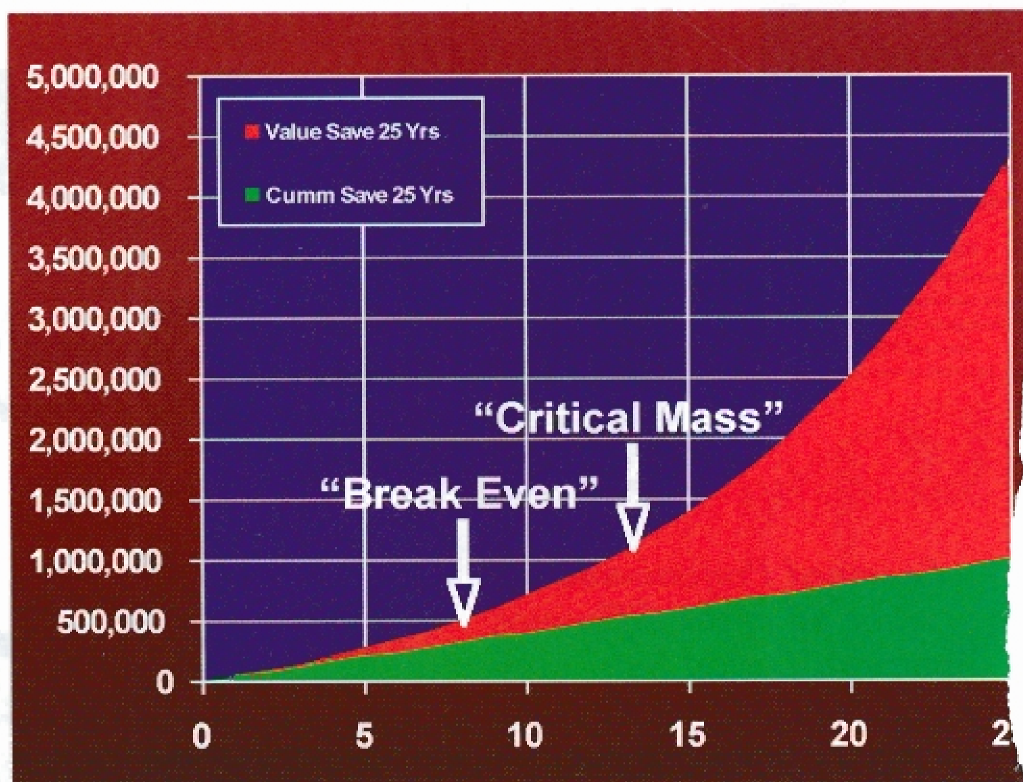

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