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Dentists need to plan for retirement, too

Retirement planning for physicians, doctors and other professionals



By **Robert Powell**, MarketWatch

Professionals, such as doctors and dentists, are a lot like you and me. They have to plan for retirement too.

But unlike you and me, these professionals have access to a wide variety retirement-planning tools and techniques. They also have a few more retirement-planning problems that other retirement savers typically don't have.

"Both professions have their challenges," said Kevin Meehan, a certified financial planner with Wealth Enhancement Group in Itasca, Ill.

What are some of the retirement-planning challenges and issues that professionals should consider?

Seeking balance

According to John Smith, a certified financial planner with Balasa Dinverno Foltz in Itasca, Ill., doctors and dentists, and others in similar professions, must strike a balance between protecting their assets from lawsuits and creating a tax-efficient portfolio.

For instance, he said doctor and dentist typically put as much of their future retirement savings into a qualified retirement plan which is protected against lawsuits," said Smith. "However, the end result at retirement is often times a doctor or dentist having a disproportionate amount of net worth in retirement accounts, which are then taxed as ordinary income when withdrawn for spending needs."

This, said Smith, often results in the professional being "trapped" in a very high marginal tax bracket during their retirement years and therefore result in excessive income [taxes](#) being owed without the flexibility to avoid this.

"The 'tax cost' of this can be a very expensive trade off for what in their minds is a good way to protect their assets from lawsuits during their working years and the result is them then having to save a lot more for their retirement needs than would have otherwise been necessary had they been focused on what they 'get to keep' after taxes," said Smith.

Still, there those who suggest that, depending on a variety of factors, doctors and dentists consider maintaining their retirement/employer assets in their existing plan vs. rolling over to an IRA. "The ERISA plans may offer a greater level of protection against creditors," said Kevin O'Laughlin, a certified financial planner with Affiance Financial, a financial planning firm in St. Louis Park, Minn.

FDA to review approval process for OTC drugs

The FDA plans to overhaul its approval process for OTC drugs. Plus, educational policy is being blamed for the ADHD epidemic; and more. Photo: Getty.

Speaking of pension plans

Unlike most working Americans, says John Hauserman, a certified financial planner and creator of RetirementQuest, a Marriottsville, Md.-based education website, physicians and dentists can use many different types of retirement plans, such as age-weighted profit-sharing and defined benefit plans, to increase the size of their nest egg.

"The number one issue I deal with regarding professionals involves the use of actuarial pension plans which can enable much higher retirement plan contributions," said Hauserman. "I find that in many cases brokers don't suggest them and I believe it is due to the increased complexity and perhaps their broker-dealers have wanted to avoid the assumption of fiduciary responsibilities."

Others agree that physicians and dentists can, but often don't, take advantage of the high deferral limits on customized retirement plans, "Most doctors don't realize how much they can use older tax law to maximize the potential of contributing six-figure amounts," said JJ Burns, a certified financial planner and president and CEO of JJ Burns & Co. in Melville, N.Y.

Indeed, doctors have plenty of options when it comes to designing their retirement plan. For instance, Burns said, they can set up retirement plans not just with their primary business but also with affiliated businesses they might own. "Most doctors don't know about this," said Burns, who also warned that government audits are likely when you set up multiple retirement plans.

Burns also said these professionals should consider creating retirement plans that include their employees. "Doctors typically don't include employees or include them too much," said Burns. "Better team building can happen in practices that embrace retirement plan education, too."

Cash flow is king

The need to create tax-efficient income in retirement is especially important for professionals that have larger-than-average income streams during their working years. In 2012, for instance, the median pay for physicians and surgeons was \$187,200 a year, according to the [Bureau of Labor Statistics](#). And, the median pay for dentists was \$149,310 a year. (Of note, the average net income for an independent private practitioner dentist who owned all or part of his or her practice in 2009 was \$192,680 for a general practitioner and \$305,820 for a specialist, according to the American Dental Association.)

“Cash flow is a huge concern and successful doctors and business owners are used to a powerful income stream and need a lot of help navigating retirement where they don’t have the comfort of a steady paycheck,” said Paul Jarvis, a certified financial planner with United Capital Financial Advisers in Fargo, N.D.

Meehan noted that most of their retirement income will come from assets, but that dentists are different from physicians. “As the general dentist does not make a very high six-figure income few have saved enough to replicate income in retirement,” he said. “Doctors on the other hand typically make more money and live larger. The spread of working-to-retired income is that much higher.”

Succession planning

Solo practices also have to worry about the risk of not surviving the retirement, disability or death of their founder, said Andrew Gardener, founder and president of Houston-based Tanglewood Legacy Advisor.

The questions, according to Gardener, are: What do solos do at the end of their careers? What do they do with their practice? Wind it down? Take in a younger partner? Try to sell the practice?

“Making the decision may be tough,” said Gardener. “Implementing the decision may seem formidable. Long-range planning, with an eye to retirement, may seem daunting. This can lead to inaction.”

From his perspective, the key to succession planning is to recognize that it is a process, not an event. “Ideally that process should begin five to 10 years before the solo approaches retirement age,” said Gardener. “Identifying a successor and developing a step-by-step transition process takes time.”

Gardener said the goals of a succession plan should be: to make sure your patients’ ongoing needs are well taken care of; to provide you with the flexibility you need to enjoy some personally rewarding retirement years; and to maximize the value you receive for the practice you have built through many years of hard work. “The goals are achievable, but only through a planning process,” he said.

According to Gardener, when it comes to an exit strategy, the solo practitioner has the following choices:

- Wind down and close the practice. “If the solo has not considered or has not accepted the possibility of a succession plan, the result will be an eventual closing of the practice,” said Gardener. “In many respects, this will be easier than grooming a successor; on the other hand, this approach will not capture any value for the retiring solo.”
- Recruit a successor. “Solos who want their practice to survive them can engage in a process to handpick a successor to whom they will entrust their patients’ welfare,” said Gardener.
- Merge. “The solo can merge with another solo or with a small similar practice,” said Gardener. “This type of arrangement involves careful positioning and takes several years to accomplish.”
- Be acquired by a larger practice. “Solo practitioners with a high-level practice and a strong patient base can be attractive to larger practices,” said Gardener.

Selling your practice

Most experts also say that physicians and dentists ought to think long and hard about selling their practice. “I’ve seen some of the most important planning to be for the sale of the practice and how to maximize this value which is typically the largest contributor to retirement for dentists and doctors,” said Charles Sachs, a certified financial planner with Miami-based Private Wealth Counsel.

For instance, Hauserman said, doctors and dentists must factor in capital gains when contemplating the sale of their practice. “After the sale of a business many have additional complexities regarding income planning due to unique nature of capital gains,” he said. “This sometimes turns conventional wisdom upside down.”

Plus, they might have to customize their estate planning, especially if the sale of their business will be disposed or completed over the course of several years, said Burns.

Of note, Meehan said dentists should contemplate the fact that there are fewer seats in dental schools these days and therefore fewer dentists to buy their practice. According to the Bureau of Labor Statistics, there are 146,800 dentists in the U.S. During the 2012-13 academic year, there were 21,853 students enrolled in predoctoral dental education programs, according to the American Dental Association.

Meehan also warned that these professionals ought not think that selling their practice will prove to be a windfall. “There is also not a lot of equity in the practice,” he said. “Most of their retirement income will come for assets. Both professions would be best off spending less and saving more.”

Plan your retirement

Doctors who have spent countless hours working, might find it hard to stop working without anything to do in retirement. For his part, O’Laughlin suggests that they consider phased retirement, if possible. “Adjust to retirement unless you have something you can’t wait to be doing,” said O’Laughlin.

They should also using their time and talents during their career in a volunteer capacity, such as Doctors Without Borders or something similar, said O’Laughlin. This way you can continue doing this sort of activity in a mentor/advisory role during retirement, he said.

Health-care professionals like these also need consider how they will fund health-care in retirement, said Burns.

Other advice

Review your malpractice insurance coverage. "Are you covered in retirement?" asked O'Laughlin.

Don't forget to create a comprehensive financial plan. "It takes a plan," said Burns: "Golden years are golden when planning is written out in advance...and how all be coordinated with the wealth of each health care professional."

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Robert Powell is editor of [Retirement Weekly](#), published by MarketWatch. [Follow his tweets at RJP111](#). Got questions about retirement? Get answers. [Send Bob an email here](#).

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